

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2005

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Seattle are regulated by the Washington State Auditor's Office and conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB). The City's significant accounting policies are described below.

#### REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability, and a component unit over which the City is not financially accountable but is required to be reported due to the nature and significance of its relationship with the City. Additional information on the component unit may be found in Note 11. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

#### Indicators of Financial Accountability

The financial statements include the organizations for which the elected officials of the City of Seattle are financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and
  - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or
  - Provisions by the organization of specific financial benefits to the City; or
  - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;
- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

#### Joint Venture

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. The City participates in a joint venture with King County with regard to the Seattle-King County Work Force Development Council. The City's joint venture with King County with regard to the Seattle King County Department of Public Health was terminated after 2004. Additional information on the existing joint venture may be found in Note 12.

## Organizations Excluded: Related Organizations

Organizations for which the City has appointed a voting majority of the members of the governing body, but for which the City is not financially accountable, are as follows:

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

## ACCOUNTING STANDARDS

The City implemented the following Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) statements:

In May 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement was issued to amend Statement No. 14 to provide additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. This statement is effective for fiscal years beginning after June 15, 2003, and was adopted by the City in 2004.

In March 2003 the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and amends disclosure requirements related to investment risks and deposit risks. The risks for investments include credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The deposit risks include custodial credit risk and foreign currency risk. This statement was implemented in 2005 and did not have a material effect on the City's financial position or operations.

In November 2003 the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The statement also clarifies and establishes accounting requirements for insurance recoveries. This statement was implemented in 2005 and did not have a material effect on the City's financial position or operations.

## GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements report the financial position and activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on charges and fees for their services. Resources of fiduciary activities, which are not available to finance governmental programs, are excluded from the government-wide statements.

### Statement of Net Assets

The Statement of Net Assets reports all financial and capital resources. The difference between assets and liabilities is net assets. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The amount reported as invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are restricted when constraints placed on net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

For permanent endowments, net assets are displayed showing the nonexpendable and the expendable components separately. Nonexpendable net assets are those that are required to be retained in perpetuity and are reported as restricted net assets. Unrestricted net assets are those that are not "invested in capital assets, net of related debt" or "restricted."

### Statement of Activities

The Statement of Activities displays the degree to which the direct expenses of a given function or segment are funded by program revenues. Direct expenses are those that are clearly identifiable to a specific function. Direct expenses include depreciation on capital assets that are clearly associated with a given function. In general, expenses related to personnel functions are reported as indirect expenses. Program revenues include charges for services, grants, and contributions that are restricted for specific purposes. Taxes and other revenues not included as program revenues are reported as general revenues.

Interfund activity within governmental funds of the City is eliminated, except for the effect of services provided by the business-type activities, such as the sale of utility services to the general government and to other funds. This avoids misstatement of program revenues of the selling function and expenses of the various users. Operating income or (loss) reported by internal service funds in the fund financial statements are allocated back to the City departments either as a reduction or addition to their expenses by function.

### Fund Financial Statements

Separate fund financial statements are provided to report additional and detailed information for governmental funds, proprietary funds, and fiduciary funds. Even though fiduciary funds are excluded from the government-wide financial statements, these funds are reported in the fund financial statements under the statement of fiduciary net assets and the statement of changes in fiduciary net assets. Major individual governmental funds and major individual enterprise funds are presented as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The **Low-Income Housing Fund** manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for a seven-year housing levy approved by the voters in 2002 to provide, produce, and/or preserve affordable housing in Seattle and to assist low-income tenants in Seattle.

The **Transportation Fund** accounts for revenues for construction, improvement, repair, or maintenance of City streets and waterways. Revenues include taxes on the sale, disposition, or use of motor vehicle fuel; motor vehicle excise taxes designated for street purposes; and grants.

The **General Bond Interest and Redemption Fund** receives moneys from excess property tax levies to pay interest costs and principal redemptions on voter-approved general obligation bonds. It also receives moneys from the General Fund, the Fleets and Facilities Fund, and other City funds to pay for interest costs and principal redemptions on councilmanic limited tax general obligation bonds.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility which owns and operates generating, transmission, and distribution facilities and serves more than 375,000 customers in the Seattle area.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 180 miles of water supply mains and more than 494 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of over 1,350,000 people, with an average daily total consumption of about 119 million gallons of water.

The **Drainage and Wastewater Fund** accounts for operating the sewer and drainage utility facilities and its pumping stations. These facilities and stations are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

Additionally, the City reports the following fund types:

There are two **permanent funds** of the City, the investment income or earnings of which are available only for disbursement. They are the **H. H. Dearborn Fund** and the **Beach Maintenance Trust Fund**.

**Internal service funds** account for support services furnished to other City departments such as the motor pool; design, construction, and management services for capital improvement projects (CIP) funds; telecommunications; data communications; radio systems; and the fiber optic network.

**Fiduciary funds** account for assets held in a trustee or agency capacity. The City has three pension trust funds:

**The Employees' Retirement Fund** receives employees' payroll deductions for retirement and the City's matching contributions. It pays pension benefits to retired City employees.

**The Firemen's Pension Fund** accounts for revenues from an annual property tax levy of up to \$0.45 per assessed value, a portion of the state-levied fire insurance premium tax, and General Fund contributions.

The **Police Relief and Pension Fund** receives support almost entirely from the General Fund to pay for sworn police personnel's medical and pension benefits that are not covered by the state's Law Enforcement Officers' and Fire Fighters' Retirement System and/or industrial insurance.

The City uses **agency funds** to report assets that are held in a custodial relationship. Agency funds are not used to support the government's own programs and so these funds are excluded from the government-wide statements. The City reports the following as agency funds: Guaranty Deposits, Payroll Withholding, Salary, and Voucher Funds.

## MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

### Government-wide Financial Statements

Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Basis of accounting refers to the point when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

### Governmental Fund Financial Statements

Financial statements for governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter (generally 60 days) to pay current liabilities. Revenues that are measurable but not available are recorded as receivables and offset by deferred revenues. Property taxes, business and occupation taxes, and other taxpayer-assessed tax revenues due for the current year are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Special assessments are recognized as revenues only to the extent that those individual installments are considered as current assets. Intergovernmental revenues received as reimbursements for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues received but not earned are recorded as deferred revenues. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are recorded when the liability is incurred except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid.

### Proprietary Fund Financial Statements

Financial statements for proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Certain costs in the enterprise funds are deferred and expensed in future years as the utility rates recover these costs.

The revenues of the four utilities, which are based upon service rates authorized by the City Council, are determined by monthly or bimonthly billings to customers. Amounts received but not earned at year-end are reported as deferred revenues. Earned but unbilled revenues are accrued.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal activity. The principal operating revenues of the City's Light, Water, Solid Waste, Drainage and Wastewater Utilities, the Parking Garage, the Planning and Development Fund, and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personnel services, contractual services, other supplies and expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has chosen flexible application and reporting in accordance with the election of each fund. City Light elected to apply all GASB pronouncements as well as all FASB statements and interpretations except where they conflict with GASB pronouncements. All other enterprise funds elected to apply all GASB pronouncements and those FASB statements and interpretations issued on or before November 30, 1989, except when they contradict GASB pronouncements.

### Fiduciary Fund Financial Statements

Financial statements for the pension trust and private-purpose trust funds use the economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Agency funds, unlike the other types of fiduciary funds, report only assets and liabilities. Agency funds do not have a measurement focus since they do not report equity and cannot present an operating statement reporting changes in equity. They do, however, use the accrual basis of accounting to recognize receivables and payables.

### BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounts are integrated in the fund database for all budgeted funds, including capital improvement projects funds and Community Development Block Grant (CDBG) fund. However, the annual financial report includes budgetary comparisons for annually budgeted governmental operating funds only. Note 2, Stewardship, Compliance, and Accountability, discusses in detail the City's budgetary policies and processes.

### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

#### Cash and Investments

The City is authorized to purchase U.S. Treasury and government agency securities; certificates of deposits and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58; bankers' acceptances purchased in the secondary market; commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies; repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, and the public funds investment account known as the local government investment pool (LGIP) in the State Treasury and other securities as authorized by law.

The City and the City Employees' Retirement System are also allowed under state law to make securities lending transactions. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity. Assets and liabilities include the value of the collateral that is being held. Under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Securities lent must be collateralized with cash or securities having 102 percent of the market value of the loaned securities. The City and the Retirement System have the ability to pledge or sell collateral securities without a borrower default.

Under the City's investment policy, all temporary cash surpluses are invested, either directly or through a "sweep account." Pooled investments are reported on the Combined Balance Sheet as Cash and Equity in Pooled Investments. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned.

Since the participating funds in the City's internal investment pool use the pool as if it were a demand deposit account, the proprietary fund equity in pooled investments is considered cash for cash flow reporting purposes.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.

- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are done on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

The Seattle City Employees' Retirement System has its investment management policies set by the Retirement Board. State law allows the System to invest in longer term maturities and in a broader variety of securities, such as real estate and equity issues. The Board policies require that investments in any one corporation or organization may not exceed five percent of net assets available for benefits. Less than five percent of plan assets can be invested in derivative securities. All derivatives are high quality non-leveraged securities consisting of collateralized mortgage obligations (CMOs), Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk. Venture capital and real estate equities are reported at fair value that has been determined by independent appraisers.

## Receivables

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/due from other funds.

Advances to other funds in governmental funds are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

## Inventories

Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies held for consumption.

The cost is recorded as expenditure in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. Governmental fund inventories are equally offset by a fund balance reserve to indicate that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

## Capital Assets

The City classifies assets with an estimated useful life in excess of one year as capital assets. As a general rule, items with an initial individual cost of \$5,000 or more are capitalized.

Governmental infrastructure assets include long-lived capital assets, such as roads, bridges, and tunnels that normally can be preserved for a significantly greater number of years than most capital assets. Estimated historical costs were established based on the City's street reports to the state. Works of art have been valued at historical cost. In cases where the historical cost is not available the method used was "backtrending," i.e., deflating the current replacement cost using the appropriate price index. Donated capital assets are valued at their estimated fair market value at the time of donation. For proprietary funds, contributions of capital assets are reported under Capital Contributions and Grants in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Most capital assets are depreciated for the governmental funds. Annual depreciation is recorded in government-wide statements as an expense of the governmental function for which the assets are being used. Depreciation is computed using the straight-line method over estimated service lives as follows:

Utility plant	33 - 100 years
Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Infrastructure	10 - 50 years
Equipment	2 - 25 years

Composite rates are used in the enterprise funds for depreciating asset groups. Consequently, when an asset is retired, its original cost together with removal costs less salvage is charged to accumulated depreciation. The cost of current maintenance and repairs is charged to expense, while the cost of renewals and betterments is capitalized.

### Restricted Assets

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes.

Capital leases are recorded at the present value of future lease payments and amortized on a straight-line basis over the life of the lease.

### Deferred Charges

Deferred charges may include the preliminary costs of projects and information systems, programmatic conservation costs, landfill closure costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond issues.

Preliminary costs incurred by the enterprise funds for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; costs are charged to expense if a project is abandoned or deferred if the costs are to be recovered through future use. Conservation program costs in the Light and Water utilities which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives due to the utilities' capital financing plans and rate-setting methodology. Costs of administering the overall program are expensed as incurred.

In the proprietary funds the bond premium and discount are amortized using the effective-interest method over the term of the bonds. The excess costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using either straight-line or effective-interest methods over the shorter of the remaining life of the old debt or the life of the new bond issue. Bond issue costs are amortized over the life of the bond. For all other funds, deferrals and amortizations are recognized and reported directly in the government-wide statements under governmental activities.

To the extent landfill closure costs are covered by grants, the Solid Waste Utility reports these costs as operating expense. Solid Waste's portion of the costs is deferred and amortized as it is recovered from the ratepayers.

### Accumulated Compensated Absences

Compensated absences, including payroll taxes, are reported as current and noncurrent liabilities in the statement of net assets. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method.

#### *Vacation Pay*

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or termination is considered vested and payable to the employee.

#### *Sick Pay*

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25 percent of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement.

## ***Other Compensated Absences***

Other compensated absences include compensatory time in lieu of overtime pay, merit credits earned by fire fighters, furlough earned by police, holiday earned by library and police employees, and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

## **Risk Management**

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City's average investment rate of return (Note 14).

## **Other Accrued Liabilities**

Other accrued liabilities include deposits, interest payable on obligations other than bonds, and current portions of lease-purchase agreements.

## **Interfund Activity and Contracts/Advances**

Interfund activity and balances in the funds are eliminated or reclassified in the process of aggregating data for the Statement of Net Assets and the Statement of Activities.

Interfund debt is recorded in the appropriate funds even though such debt may result in a noncurrent liability for a governmental fund because the debt is not a general obligation of the City.

## **Deferred Revenues**

Deferred revenues include amounts collected before revenue recognition criteria are met, as well as amounts recorded as receivables, which under the modified accrual basis of accounting, are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts, mortgages receivable, grant funds received in advance of expenditures in governmental funds, and the amounts loaned by the Housing and Community Development Revenue Sharing Fund, a special revenue fund, under authorized federal loan programs.

Deferred credits include deferred revenues and revenues collected or billed in advance.

## **Reservations and Designations**

A reservation is used to segregate a portion of fund balance that is either not appropriable for expenditures or is legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

In cases where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

## **Program Revenues**

Program revenues are revenues derived directly from the program itself. These revenues reduce the net cost of the function to be financed from the City's general revenues. The Statement of Activities separately reports three categories of program revenues: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenues that do not meet the criteria of program revenues are reported as general revenues.

## **Prior-Year Comparative Data**

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City of Seattle's financial statements for the year ended December 31, 2004, from which the summarized information was derived.



## (2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### BUDGETARY INFORMATION

The City budgets for the General Fund and some special revenue funds on an annual basis. The special revenue funds which have legally adopted annual budgets are the Park and Recreation Fund, the Transportation Fund, the Library Fund, the Seattle Center Fund, the Human Services Operating Fund, the Office of Housing Fund, and the Low-Income Housing Fund.

The City Council approves the City's operating budget. In addition, the City Council annually approves two separate but related financial planning documents: the Capital Improvement Program (CIP) plan and the Community Development Block Grant (CDBG) program allocation.

The operating budget is proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The budget is designed to allocate available resources on a biennial basis among the City's public services and programs and provides for associated financing decisions. The budget appropriates fiscal year expenditures and establishes employee positions by department and fund except for project-oriented, multiyear appropriations made for capital projects, grants, or endowments.

**Table 2-1** **APPROPRIATION CHANGES – GENERAL FUND**  
*(In Thousands)*

	<u>2005</u>
Annual Budget	\$ 863,545
Carryovers	
Encumbrances	13,797
Continuing Appropriations	38,338
Carryover Adjustments	(149)
Intrafund	(110,372)
Revisions	<u>63,938</u>
Total Budget	<u>\$ 869,097</u>

The CIP plan is also proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The CIP is a six-year plan for capital project expenditures and anticipated financing by fund source. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multiyear expenditures identified in the CIP. These expenditures are legally authorized through the annual operating budget or by specific project ordinances during the year.

The CDBG planning process allocates the annual grant awarded by the federal government. Allocations are made to both City and non-City organizations. Legal authority is established each year by a separate appropriation ordinance for the Housing and Community Development Revenue Sharing Fund.

Budgetary control for the operating budget generally is maintained at the budget control level within departments with the following exceptions: the Library Fund has its total budget set at fund level by the City Council, but its actual expenditures are controlled by the Library Board; capital projects programmed in the CIP are controlled at the project or project-phase level or program depending on legal requirements; grant-funded activities are controlled as prescribed by law and federal regulations.

The City Council may by ordinance abrogate, decrease, or reappropriate any unexpended budget authority during the year. The City Council, with a three-fourths vote, may also increase appropriations. Emergency Subfund appropriations related to settlement of claims, emergency conditions, or laws enacted since the annual operating budget ordinance require approval by two-thirds of the City Council.

The Finance Director may approve the transfer of appropriations. Beginning in 2003 the following restrictions to budget transfers within a budget year were imposed by ordinance. Total budget transfers into a budget control level may not exceed 10 percent of its original budgeted allowance, and in no case may they be greater than \$500,000. Total transfers out may not exceed 25 percent of the original budgeted allowance. Within a budget control level departments may transfer appropriations without the Finance Director's approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Executive Administration. Budget figures consist of the adopted annual budget, which includes appropriation carryovers from previous years and any

revisions during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances, which do not lapse and are included with expenditures.

## DEFICITS IN FUND BALANCES AND NET ASSETS

The Seattle Center Fund shows a negative fund balance of \$6.4 million. Fewer visitors to the Seattle Center campus and increased competition in the sports and entertainment businesses resulted in decreased revenues to the fund. Significant expense cuts and revenue from the sale of surplus property reduced the fund deficit in 2005 from \$9.7 million in 2004. The City Council has authorized a loan from the City's Consolidated Cash Pool to cover the fund's negative cash balance (Ordinance 121262). A planned sale of other surplus property is expected to bring the fund to a positive fund balance in 2006.

The Business Improvement Areas (BIA) Fund has a fund deficit of \$45.8 thousand, primarily as a result of the imbalance of spending by the Downtown Parking and Business Improvement District, the largest BIA district, which has a fiscal year-end of June 30. This district spends a larger portion of their funds prior to the year-end holiday season. The district has been notified of the need for correction and is being closely monitored. The BIA balance is expected to improve by the end of its fiscal year in June 2006 and the end of the City's fiscal year on December 31, 2006.

The Downtown Parking Garage Fund has negative fund equity of \$18.5 million. This is mostly attributable to the cumulative effects of annual depreciation expense which is not planned to be covered by operating revenues. The Garage has been generating revenues to cover operating expenses and debt service payments, but not depreciation and accrued interest. The negative fund equity will continue; however, the Garage is expected to cover future operating costs and debt service as they become due.

The Engineering Services Fund has \$4.0 million of deficit net assets. This deficit is largely the consequence of inadequate overhead rates during the mid-1990s, which led to significant under-recovery of expenditures and disputed costs on projects performed for other agencies and departments. Disputed billing and overhead issues have been addressed and are now closely monitored, and deficit-recovery surcharges are being applied to Engineering Services Fund services. The financial position of the Engineering Services Fund has improved from a \$5.2 million deficit in 2004 and is expected to continue to improve in future years.

## (3) CASH AND INVESTMENTS

### CASH AND EQUITY IN POOLED INVESTMENTS

Cash resources of all City funds are combined to form a pool of cash that is managed by the Department of Executive Administration. Under the City's investment policy, all temporary cash surpluses in the pool are invested. Each fund's share of the cash pool is included in the participating fund's balance sheet under the caption "Cash and Equity in Pooled Investments." The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash out of the pool without prior notice or penalty.

**Custodial Credit Risk – Deposits.** As of December 31, 2005, the City's cash pool had cash on deposit with the City's custodial banks in the amount of \$14,378,730. This amount represents cash that had been credited in the City books but remains in the bank to cover checks that were issued by the City but were unredeemed at the end of the year. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to \$100,000. The rest is uninsured and uncollateralized and is therefore exposed to custodial risk which is the risk that the deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition. Furthermore, all deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the state of Washington. The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 11 percent of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

### CITY TREASURY INVESTMENTS

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold all of the City's investments in the City's name. As of December 31, 2005, the City's cash investment pool had the following investments and maturities.

**Table 3-1**

**INVESTMENTS AND MATURITIES  
TREASURY RESIDUAL INVESTMENTS AND  
SECURITIES HELD FOR DEDICATED FUNDS  
(In Thousands)**

Investments	Fair Value			Weighted Average Maturity (Days)
	Treasury Residual Investments	Securities Held for Dedicated Funds	Carrying Amount	
Repurchase Agreements	\$ 66,901	\$ -	\$ 66,901	3
U.S. Government Obligations	49,243	-	49,243	264
U.S. Government Agencies	463,082	19,413	482,495	362
Commercial Paper	148,243	34,223	182,466	8
Total	<u>\$ 727,469</u>	<u>\$ 53,636</u>	<u>\$ 781,105</u>	
Weighted Average Maturity of the Treasury Residual Investments and Securities Held for Dedicated Funds				243

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to no longer than five years. Furthermore, to achieve its financial objective of maintaining liquidity to meet its operating cash flow needs, the City typically selects investments that have much shorter average maturities.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, the City manages its exposure to credit risk by limiting its investments in commercial paper purchased on the secondary market to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations. As of December 31, 2005, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 by Standard & Poor's, and/or F-1 by Fitch Ratings.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2005, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the contra-party, and repurchase transactions may only be conducted with primary dealers of the City's bank of record or master custodial bank. Securities delivered as collateral must be priced at a minimum of 102 percent of their market value for U.S. Treasuries and at higher margins of 103 percent to 105 percent for debentures of U.S. federal government-sponsored enterprises, mortgage-backed pass-throughs, banker's acceptances, and commercial paper. In addition, collateral securities must have the highest credit ratings of at least two nationally recognized statistical rating organizations (NRSROs). As of December 31, 2005, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure to concentration of credit risk for the City's investments portfolio as a whole. The City limits its investments in any one issuer to no higher than twenty percent of its portfolio, except for investments in U.S. government obligations or U.S. government agency securities, which may comprise up to one hundred percent of the portfolio. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2005, are shown in the following table.

**Table 3-2**

**CONCENTRATION OF CREDIT RISK**  
*(In Thousands)*

<b>Issuer</b>	<b>Fair Value</b>	<b>Percent of Total Investments</b>
Federal Home Loan Mortgage Corporation	\$ 188,149	24 %
Federal National Mortgage Association	140,905	18
Federal Home Loan Bank	114,214	15
Merrill Lynch GSI	66,900	9
Federal Farm Credit Bank	39,227	5

**Custodial Credit Risk – Investments.** The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's agent and not by the counterparty or the counterparty's trust department or agent. In accordance with its investment policy, the City also maintains a list of security dealers and financial institutions authorized to provide investment services to the City. The security dealers and financial institutions may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and investment departments of local banks which passed evaluation of their financial condition, strength and capability to fulfill commitments; overall reputation with other dealers and investors; regulatory status; and background and expertise on their individual representative.

**Foreign Currency Risk.** The City Treasury investment pool and securities held for dedicated funds does not invest in foreign currencies.

## **INVESTMENTS OF THE SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)**

Investments of the Seattle City Employees' Retirement System are accounted for in the Employees' Retirement Fund, a fiduciary fund which is not included in the citywide financial statements because its resources belong to the retirement system and do not support City programs.

The retirement fund investments are made in accordance with the prudent person rule as defined by RCW 35.39.060.

**Table 3-3**

**SCERS' INVESTMENTS**  
*(In Thousands)*

<b>Investments</b>	<b>Amount</b>
U.S. Government Obligations	\$ 115,262
International Bonds	102,019
Domestic Stocks	900,993
International Stocks	201,641
Other	
Short-term Investment Funds	166,153
Mezzanine Debt	19,016
Real Estate	187,814
Alternative/Venture Capital	207,185
Total	<u>\$ 1,900,083</u>

**Credit Risk.** In accordance with its policy, the Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments and applicable restrictions necessary for risk control. Managers do not have authority to depart from those guidelines.

SCERS' fixed income portfolio is primarily managed by three external money management firms. SCERS' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

**Table 3-4**

## SCERS' FIXED INCOME PORTFOLIO (In Thousands)

Investment Type	Fair Value	Investment Maturities (In Years)			
		<1	1 - 5	6 - 10	>10
Fixed Income					
U.S. Government	\$ 36,684	\$ 2,714	\$ 10,157	\$ 6,526	\$ 17,287
Mortgage-Backed	46,019	877	2,499	3,171	39,472
CMOs, CDOs, and CLOs	13,968	-	643	704	12,621
Corporate	64,298	3,623	27,651	13,848	19,176
Developed Markets	346	267	-	79	-
Emerging Markets	2,231	-	132	119	1,980
Convertible Bonds	34				
Convertible Preferred	1,023				
Derivatives	345				
Index Funds	41,234				
Mutual Funds	13,896				
Short-Term					
Repurchase Agreements	19,009				
Pooled Funds	11,857				
Total Portfolio	<u>\$ 250,944</u>	<u>\$ 7,481</u>	<u>\$ 41,082</u>	<u>\$ 24,447</u>	<u>\$ 90,536</u>

Interest Rate Risk. SCERS' investment policy requires the Retirement Board to provide its investment managers with a set of investment guidelines that specify eligible investments and applicable restrictions necessary for risk control. Managers do not have authority to depart from those guidelines.

SCERS' investment policy does not limit fixed income investments based on ratings by any nationally recognized rating agencies although, based on the prudent person rule, speculative investments should be avoided.

**Table 3-5**

## SCERS' FIXED INCOME RATINGS BY STANDARD AND POOR'S (In Thousands)

Investment Type	AAA	AA	A	BBB	BB	B	CCC and Below	Not Rated
Fixed Income								
Mortgage-Backed								
Corporate Pass-Through	\$ 27,861	\$ 455	\$ 525	\$ 31	\$ 433	\$ 786	\$ 526	\$ 2,345
CDOs and CLOs								
Corporate				1,011				9,563
Corporate								
Bonds	1,901	2,252	9,764	13,259	7,543	6,492	351	
Asset-Backed	7,558			65	63	1,019		134
Private Placements	2,535	198	1,890	691	303	1,194		7,085
Developed Markets								
Government/Sovereign		267	79					
Emerging Markets								
Government/Sovereign	386			1,845				
Total	<u>\$ 40,241</u>	<u>\$ 3,172</u>	<u>\$ 12,258</u>	<u>\$ 16,902</u>	<u>\$ 8,342</u>	<u>\$ 9,491</u>	<u>\$ 877</u>	<u>\$ 19,127</u>

SCERS' investments are made in accordance with the prudent person rule as defined by RCW 35.39. The investment policy specifies target percentages for diversification of investments in order to minimize the risk of large losses.

**Table 3-6**

## SCERS' ASSET ALLOCATION

Asset Class	Actual	Target
Cash and Cash Equivalents	1.1 %	1.0 %
Equities		
Domestic	50.5	48.0
International	11.5	10.0
Alternative	11.5	10.0
Debt		
Bonds	13.9	14.0
Mezzanine	1.0	5.0
Real Estate	10.5	12.0
Total	<u>100.0 %</u>	<u>100.0 %</u>

**Concentration of Credit Risk.** The Investment Committee reviews its portfolio holdings quarterly to ensure compliance with the specified targets. Regular, systematic rebalancing of the portfolio back to the target percentages are undertaken to ensure compliance with the specified targets. In line with its policy, the System does not have any investments in any issuer that represent more than 5 percent of the System's net assets, except for investments in U.S. government obligations or U.S. government agency securities. The Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments, minimum diversification standards, and applicable restrictions necessary for diversification. Managers do not have authority to depart from those guidelines.

**Custodial Credit Risk.** The system mitigates custodial credit risk by having its investment securities held by the System's custodian and registered in the System's name.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposure or exchange rate risk primarily resides within the international equity holdings. The System's investment managers maintain adequately diversified portfolios to limit currency security risk. Per the System's policy, individual manager guidelines include the ranges of acceptable exposure.

## SECURITIES LENDING TRANSACTIONS

The City is allowed to engage in securities lending transactions similar to that instituted by the Washington State Treasurer's Office and other municipal corporations in the State of Washington.

Under the authority of RCW 41.28.005 and the SMC 4.36.130, the Seattle City Employees' Retirement System Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions whereby securities are loaned for the purpose of generating additional income to SCERS. Gross income from securities lending transactions of SCERS as well as the various fees paid to the institution that oversees the lending activity are reported in the fund's operating statements. Assets and liabilities include the value of the collateral that is being held.

The market value of the required collateral must meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. There are no restrictions on the amount of securities that may be loaned. The contractual agreement with the SCERS' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay SCERS' income distribution by the securities' issuers while the securities are on loan. Cash and U.S. government securities were received as collateral for these loans. SCERS cannot pledge or sell collateral securities without a borrower default.

SCERS invests cash collateral received; accordingly, investments made with cash collateral are reported as asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. There have been no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2005.

**Table 3-7**

### SCERS' SECURITIES LENT AND COLLATERAL (In Thousands)

Type of Securities Lent	2005		2004	
	Fair Values of Securities Lent	Collateral	Fair Values of Securities Lent	Collateral
U.S. Government and Agencies	\$ 19,145	\$ 19,845	\$ 118,576	\$ 120,740
U.S. Corporate Fixed Income	9,649	9,870	17,192	17,553
U.S. Equities	89,992	93,148	97,843	100,795
Total Securities Lent	<u>\$ 118,786</u>	<u>\$ 122,863</u>	<u>\$ 233,611</u>	<u>\$ 239,088</u>

  

Collateral	2005	2004
U.S. Corporate Obligations	\$ 55,005	\$ 103,106
Bank Obligations	23,996	55,001
Commercial Paper	4,977	3,992
Repurchase Agreements	6,169	76,987
Asset-Backed Securities	4,708	-
Certificates of Deposit	14,994	-
Time Deposits	5,000	-
Euro Clear Floater	8,014	-
Total Collateral	<u>\$ 122,863</u>	<u>\$ 239,086</u>

## REVERSE REPURCHASE AGREEMENTS

The City regularly enters into reverse repurchase agreements as part of its investment strategy. These agreements are sales of securities with simultaneous agreements to repurchase them at a future date at the same prices plus contracted rates of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

RCW 35.39.030 and City investment policy allow the investment of City moneys in excess of current City needs in reverse repurchase agreements structured with securities eligible for purchase provided a master repurchase agreement has been executed with the contra-party. The securities eligible for purchase pursuant to City investment policy are included in Note 1.

**Credit Risk – Reverse Repurchase Agreements.** If the dealers default on their obligations to resell securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The City had no outstanding reverse repurchase agreements as of December 31, 2005.

## (4) RECEIVABLES AND INTERFUND TRANSACTIONS

Table 4-1

### TAX REVENUES AND RECEIVABLES (In Thousands)

	2005 Revenues	December 31 2005 Receivables
Property Taxes	\$ 311,376	\$ 5,919
General Business and Occupation Taxes	196,054	42,180
Totals	<u>\$ 507,430</u>	<u>\$ 48,099</u>

## TAXING POWERS AND LIMITATIONS

State law limits the regular property tax rate for general City operations to \$3.60 per \$1,000 of assessed value. This includes \$3.375 for general municipal purposes and an additional \$0.225 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth in the City's regular property tax levy to the lesser of 1.06 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 1.06 percent to 1.01 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 1.01 percent annual growth limit, as long as the City's regular levy rate per \$1,000 of assessed value does not exceed the \$3.60 limit. Excess tax levies for capital purposes require a 60-percent approval by voters and do not fall under either of the limits. The City levied \$2.12 per \$1,000 for general operations and Firemen's Pension Fund in 2005. In addition, the levy included \$1.23 per \$1,000 of assessed value for debt service and other voter-approved levies. The total 2005 levy was \$3.35 per \$1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services, which was \$0.23 per \$1,000 of assessed value.

## INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between funds. The interfund balances are presented in the balance sheets for governmental funds and statements of net assets for proprietary funds.

The following table shows the current interfund balances at December 31, 2005, as reported in the fund financial statements.

Table 4-2

## DUE FROM AND TO OTHER FUNDS (In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	\$ 1,449
	Nonmajor Enterprise	736
	Fiduciary	169
	Nonmajor Governmental	1,743
	Internal Service	2,934
	Transportation	98
	Light	3,356
	Water	1,039
	Total General Fund	11,524
Transportation	Drainage and Wastewater	649
	Nonmajor Enterprise	29
	General	838
	Nonmajor Governmental	741
	Internal Service	33
	Light	531
	Water	220
	Total Transportation	3,041
General Bond Interest and Redemption	Nonmajor Governmental	26
Light	Drainage and Wastewater	203
	Nonmajor Enterprise	189
	Fiduciary	11
	General	1,383
	Nonmajor Governmental	358
	Transportation	54
	Internal Service	159
	Water	255
	Total Light Fund	2,612
Water	Drainage and Wastewater	304
	Nonmajor Enterprise	100
	Nonmajor Governmental	333
	Fiduciary	254
	Transportation	2
	Internal Service	12
	Light	301
	Total Water Fund	1,306
Drainage and Wastewater	Nonmajor Governmental	294
	Internal Service	2
	Transportation	535
	Light	336
	Water	131
	Total Drainage and Wastewater Fund	1,298
Nonmajor Governmental	Drainage and Wastewater	772
	Nonmajor Enterprise	163
	Fiduciary	10
	General	1,838
	Nonmajor Governmental	3,920
	Internal Service	106
	Low-Income Housing	280
	Transportation	775
	Light	455
	Water	130
	Total Nonmajor Governmental Funds	8,449
Nonmajor Enterprise	Drainage and Wastewater	377
	Nonmajor Enterprise	32
	General	111
	Nonmajor Governmental	178
	Internal Service	7
	Transportation	9
	Light	338
	Water	133
	Total Nonmajor Enterprise Funds	1,185



**Table 4-2** **DUE FROM AND TO OTHER FUNDS (continued)**  
**(In Thousands)**

Receivable Fund	Payable Fund(s)	Amount
Internal Service	Drainage and Wastewater	\$ 239
	Nonmajor Enterprise	189
	Fiduciary	7
	General	2,461
	Nonmajor Governmental	1,112
	Internal Service	86
	Light	1,123
	Transportation	1,198
	Water	666
	Total Internal Service Funds	7,081
Fiduciary	Fiduciary	612
	General	25
	Nonmajor Governmental	2
	Total Fiduciary Funds	639
Grand Total		<u>\$ 37,161</u>

The balances in Table 4-2 resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made.

**Table 4-3** **ADVANCES, NOTES, AND LOANS FROM AND TO OTHER FUNDS**  
**(In Thousands)**

Advances, Notes, and Loans From	Advances, Notes, and Loans To	Amount
General Fund	Seattle Center	\$ 7,501
	Engineering Services	3,500
Total City		<u>\$ 11,001</u>

**Table 4-4** **INTERFUND TRANSFERS**  
**(In Thousands)**

Transfers In	Transfers Out					Total
	General	Nonmajor Governmental	Transportation	General Bond Interest and Redemption	Internal Service	
General Fund	\$ -	\$ 2,366	\$ -	\$ 3	\$ 7,738	\$ 10,107
Nonmajor Governmental	122,045	6,647	-	-	-	128,692
General Bond Interest and Redemption	43,924	53,312	452	-	2,377	100,065
Transportation	39,989	11,217	-	-	-	51,206
Nonmajor Enterprise	8,456	-	-	-	-	8,456
Internal Service	1,447	-	-	-	-	1,447
Total Transfers	<u>\$ 215,861</u>	<u>\$ 73,542</u>	<u>\$ 452</u>	<u>\$ 3</u>	<u>\$ 10,115</u>	<u>\$ 299,973</u>

Transfers are used to (1) move revenues from the fund wherein the statute or budget requires them to be collected to the fund wherein the statute or budget requires them to be expended and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## (5) CAPITAL ASSETS

Table 5-1

### CHANGES IN CAPITAL ASSETS (In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
<b>GOVERNMENTAL ACTIVITIES <sup>a</sup></b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 363,959	\$ 12,159	\$ 4,109	\$ 372,009
Construction in Progress	165,099	161,816	116,533	210,382
Total Capital Assets Not Being Depreciated	529,058	173,975	120,642	582,391
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,562,919	82,780	35,133	1,610,566
Machinery and Equipment	191,204	24,110	19,829	195,485
Infrastructure	870,154	18,070	-	888,224
Other Capital Assets	8,267	619	-	8,886
Total Capital Assets Being Depreciated	2,632,544	125,579	54,962	2,703,161
Accumulated Depreciation				
Buildings and Improvements	306,900	37,632	21,081	323,451
Machinery and Equipment	105,850	16,950	16,507	106,293
Infrastructure	380,803	27,128	-	407,931
Other Capital Assets	492	154	-	646
Total Accumulated Depreciation	794,045	81,864	37,588	838,321
Total Capital Assets Being Depreciated, Net	1,838,499	43,715	17,374	1,864,840
Governmental Activities Capital Assets, Net	\$ 2,367,557	\$ 217,690	\$ 138,016	\$ 2,447,231
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 64,885	\$ 2,801	\$ 4	\$ 67,682
Construction in Progress	192,043	232,782	226,334	198,491
Total Capital Assets Not Being Depreciated	256,928	235,583	226,338	266,173
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	4,041,675	194,530	16,766	4,219,439
Buildings	73,013	-	-	73,013
Machinery and Equipment	10,582	2,738	-	13,320
Other Capital Assets	15,117	18,841	1,062	32,896
Total Capital Assets Being Depreciated	4,140,387	216,109	17,828	4,338,668
Accumulated Depreciation				
Plant in Service, Excluding Land	1,472,344	123,351	23,922	1,571,773
Buildings	14,603	2,434	-	17,037
Machinery and Equipment	3,116	1,095	-	4,211
Total Accumulated Depreciation	1,490,063	126,880	23,922	1,593,021
Total Capital Assets Being Depreciated, Net	2,650,324	89,229	(6,094)	2,745,647
Business-Type Activities Capital Assets, Net	\$ 2,907,252	\$ 324,812	\$ 220,244	\$ 3,011,820

<sup>a</sup> The capital assets for governmental activities include the capital assets of the internal service funds. Schedules I-1, I-2, and I-3 provide additional information on the governmental funds capital assets.

**Table 5-2**

**DEPRECIATION EXPENSE BY FUNCTION**  
*(In Thousands)*

**GOVERNMENTAL ACTIVITIES**

General Government	\$ 14,858
Public Safety	1,722
Judicial	16
Transportation	27,268
Economic Environment	9
Culture and Recreation	<u>25,862</u>
Subtotal	69,735
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	<u>12,129</u>
Total Governmental Activities	<u><u>\$ 81,864</u></u>

**BUSINESS-TYPE ACTIVITIES**

Light	\$ 75,974
Water	32,579
Solid Waste	3,058
Drainage and Wastewater	11,740
Planning and Development	986
Parking Garage	<u>2,543</u>
Total Business-Type Activities	<u><u>\$ 126,880</u></u>

## **(6) COMPENSATED ABSENCES**

### **GOVERNMENTAL FUNDS**

Unpaid compensated absences associated with governmental fund operations of \$52.9 million and \$51.3 million at December 31, 2005 and 2004, respectively, have been recorded in the government-wide statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of \$12.0 million and \$11.1 million at the end of 2005 and 2004, respectively; accumulated unpaid vacation pay of \$32.1 million and \$31.4 million at the end of 2005 and 2004, respectively; and the balance for sick leave which was estimated based on the termination method.

### **PROPRIETARY FUNDS**

Unpaid compensated absences for the proprietary and pension trust funds were \$24.3 million and \$23.1 million on December 31, 2005 and 2004, respectively, are shown in the following table.

**Table 6-1**

**COMPENSATED ABSENCES IN PROPRIETARY AND PENSION TRUST FUNDS**  
*(In Thousands)*

	<u>2005</u>	<u>2004</u>
<b>Enterprise Funds</b>		
Light	\$ 10,991	\$ 10,849
Water	3,937	3,616
Drainage and Wastewater	2,205	2,025
Solid Waste	1,181	1,085
Planning and Development	2,225	1,984
<b>Internal Service Funds</b>		
Fleets and Facilities	1,608	1,622
Information Technology	1,290	1,170
Engineering Services	551	506
<b>Pension Trust Funds</b>		
Employees' Retirement	57	55
Firemen's Pension	143	114
Police Relief and Pension	<u>66</u>	<u>62</u>
Totals	<u><u>\$ 24,254</u></u>	<u><u>\$ 23,088</u></u>

Compensated absences in governmental activities and business-type activities are presented in the aggregate in Note 8, Long-Term Debt, Table 8-5, which also shows the amount estimated to be due within the year.

## (7) LEASES

### CAPITAL LEASES

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and government-wide statements. The net capital lease assets shown below reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

Table 7-1

### CAPITAL LEASES (In Thousands)

<u>Net Capital Lease Assets</u>	<u>Capital Assets Governmental Activities</u>
Machinery and Equipment	\$ 76
Less Accumulated Depreciation	<u>(53)</u>
December 31, 2005	<u>\$ 23</u>

  

<u>Minimum Capital Lease Payments</u>	<u>Long-Term Liabilities Governmental Activities</u>
2006	\$ 16
2007	13
2008	<u>3</u>
Total Minimum Lease Payments	32
Less Interest	<u>(3)</u>
Principal	<u>\$ 29</u>

The principal portion of the minimum capital lease payments is also presented in Table 8-5 of Note 8, Long-Term Debt.

### OPERATING LEASES

#### Governmental Activities

The City has operating lease commitments for both real and personal property managed by the Fleets and Facilities Department, which also manages the buildings and facilities owned by the City. Most leases for real property are maintained for a duration of three years and are renewable at the end of the lease period. Fleets and Facilities paid rentals of \$2.8 million and \$4.3 million in 2005 and 2004, respectively, on the lease commitments. There are no projected rent increases apart from lease agreements entered into by the City.

In addition, Seattle Center leases a building for office space and workshop on a type of lease called a "triple net lease" for its Technical Facilities Management. The lease agreement commenced on July 17, 2000, and expires on July 30, 2010, requiring a fixed rent of \$18,500 per month subject to increases on each July 1 beginning in 2001 and every year thereafter by the percentage of change, if any, in the Consumer Price Index (CPI) for All Urban Consumers, United States Average for All Items (1982 - 84 = 100) published by the Bureau of Labor Statistics, United States Department of Labor CPI from the CPI last published in the preceding year, but not to exceed five percent for any lease year. If there is a decline in the CPI, the fixed rent during the succeeding year will be equal to the fixed rent during the immediate preceding year. All other amounts required by the landlord to be paid by Seattle Center on the lease shall constitute additional rent. On a triple net lease Seattle Center will pay all impositions on the lease, insurance premiums, utilities, taxes, operating expenses, maintenance charges, repair costs, and other charges, costs, and expenses which arise or may be contemplated during the lease term. Seattle Center paid rent, including property taxes on the lease property, in the amount of \$265,100 and \$258,314 in 2005 and 2004, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are shown in the following table.

**Table 7-2**

**OPERATING LEASE COMMITMENTS  
GOVERNMENTAL ACTIVITIES  
(In Thousands)**

Year Ending December 31	Minimum Lease Payments		
	Fleets and Facilities	Seattle Center	Total
2006	\$ 3,323	\$ 251	\$ 3,574
2007	2,576	251	2,827
2008	1,380	251	1,631
2009	1,185	251	1,436
2010	1,139	146	1,285
Thereafter	3,398	-	3,398
Total	<u>\$ 13,001</u>	<u>\$ 1,150</u>	<u>\$ 14,151</u>

## Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department's lessor. This lease extended through December 2006. In addition, the Department leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under the leases totaled \$3.9 million in each of the years 2005 and 2004. There are no scheduled rent increases apart from these lease agreements.

Minimum payments under the leases are shown in the following table.

**Table 7-3**

**OPERATING LEASE COMMITMENTS  
CITY LIGHT  
(In Thousands)**

Year Ending December 31	Minimum Payments
2006	\$ 3,765
2007	138
2008	134
2009	12
Total	<u>\$ 4,049</u>

## LEASE REVENUES - GOVERNMENTAL ACTIVITIES

The Fleets and Facilities Department collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at reduced rates in consideration of offsetting benefits accruing to the City as a result of the services they provide to the public. Rental revenues derived from these activities are accounted for in the Fleets and Facilities Fund, an internal service fund.

**Table 7-4**

**MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY  
FLEETS AND FACILITIES**

	2005
Non-City Property Subleased to City Departments	\$ 3.2 million
City-Owned Property Occupied by City Departments	21.2 million
City-Owned Property Leased to Non-City Tenants	6.3 million

The amounts in the preceding table include the following:

- The City owns the Seattle Municipal Tower Building. In 2005 the gross rental revenues of the building were \$10.2 million. Of this amount, \$4.9 million relates to City department tenants.
- The Police Support Facility provides rental space for tenants. The gross rental revenues of the facility were \$0.9 million, of which \$0.2 million relates to City department tenants.
- Other City buildings, including non-City owned buildings, generated \$19.5 million in gross rental revenues. Of this amount, \$19.2 million relates to City department tenants.

Additionally, in 2005 the SeaPark Garage and the Seattle Municipal Tower (formerly known as Key Tower) generated \$1.5 million and \$1.4 million, respectively, in parking revenues, which were recorded in the Fleets and Facilities Operating Fund.

Also, the City recognized \$6.2 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place.

## **(8) LONG-TERM DEBT**

### **GENERAL OBLIGATION BONDS**

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO).

At the end of 2004 the original amount of general obligation bonds issued in prior years was \$1.3 billion. The amount of bonds outstanding at December 31, 2004, was \$907.2 million. The following two paragraphs discuss the general obligation bonds issued and bond defeasance activity during 2005.

On March 23, 2005, the City issued the \$129.5 million LTGO and Refunding bonds with interest rates ranging from 3.0 percent to 5.0 percent and which mature serially from August 1, 2005, through January 1, 2028. The proceeds of the bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Central Library Garage, Pier 59, Pay Stations, Fremont Bridge Approaches and Bridgeway, and SR519, and to finance the refund of street lighting costs charged to electric customers in prior years. Of the total bond issue, \$73.7 million was for refunding \$9.7 million of the 1995 LTGO, \$10.5 million of the 1997 Series A LTGO, and \$49.9 million of the 1999 LTGO Series B bonds. The proceeds of the refunding bonds issuance were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide for future debt service on the refunded bonds. Further discussion on the refunding is shown in the “Advance and Current Refundings” section of this note.

On September 26, 2005, the City defeased \$620,000 of the 1998 LTGO Series B Refunding bonds and \$8.5 million of the 2002 LTGO Improvement and Refunding bonds that pertain to the purchase of the Alaska and Arctic historic buildings in 1988. The City placed its own resources of \$9.6 million in an irrevocable trust to provide for future debt service payments on the bonds. Table 8-6, under the “Advance and Current Refundings” section of this note, includes information on the defeased bonds.

The City had no short-term general obligation debt at the end of 2005.

The following table presents the individual general obligation bonds outstanding as of December 31, 2005, and other relevant information on each outstanding bond issue.

**Table 8-1**

## GENERAL OBLIGATION BONDS (In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions		Bonds Outstanding
					2005	To Date <sup>a</sup>	December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Fire Apparatus, 1993	02/01/93	07/01/93-05	4.637 %	\$ 785	\$ 75	\$ 785	\$ -
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122	28,670	10,810	25,410	3,260
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	4,040	93,450	4,290
Various Purpose-Key Tower, Police Support Facility, 1996 Series C	08/28/96	01/15/20-26	4.240 <sup>b</sup>	5,595 <sup>c</sup>	-	-	5,595
Various Purpose-Key Tower, Police Support Facility, 1996 Series D	10/06/99	01/15/23-24	3.100 <sup>b</sup>	51,925 <sup>c</sup>	-	-	51,925
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	12,245	22,870	3,800
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	3,905	25,605	18,105
Deferred Interest Parking Garage, 1998 Series E	11/12/98	12/15/01-14	4.714	13,042	1,050	2,723	10,319 <sup>d</sup>
Parking Garage, 1998 Series F	11/12/98	12/15/14-28	5.148	60,805	-	-	60,805
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	53,090	72,990	12,510
Various Purpose-Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	4,010	20,520	109,240
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	20,495	30,790	94,720
Improvement (Various) and Refunding, 2002 Series B	09/26/02	10/01/03-14	3.127	64,560	24,055	27,695	36,865
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	18,995	20,075	40,780
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	430	2,495	89,310
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	1,805	1,805	127,735
Total Limited Tax General Obligation Bonds				1,016,472	155,005	347,213	669,259
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968 Series 1	10/01/68	10/01/70-08	4.726	1,700	80	1,445	255
Sewer Improvement, 1968 Series 1	10/01/68	10/01/70-08	4.726	7,000	320	5,945	1,055
Refunding-Various UTGO Bonds, 1998 Series A	03/17/98	09/01/98-17	4.470	53,865	3,515	31,440	22,425
Library Facilities, 1999 Series A	07/01/99	12/01/00-18	5.135	100,000	4,310	21,570	78,430
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	8,305	23,250	93,775
Total Unlimited Tax General Obligation Bonds				279,590	16,530	83,650	195,940
Total General Obligation Bonds				\$ 1,296,062	\$ 171,535	\$ 430,863	\$ 865,199

<sup>a</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

<sup>b</sup> Variable-rate bonds – interest rates in effect December 31, 2005. Effective September 3, 2003, bonds were in a term mode and interest is payable semiannually. These rates were used to calculate annual debt service interest requirements for these bonds.

<sup>c</sup> Of the original \$57.52 million taxable 1996C bonds, \$17 million were converted in October 1999 and \$34.925 million were converted in February 2003 to nontaxable 1996D bonds.

<sup>d</sup> The accreted value of the outstanding bonds as of December 31, 2005, is \$14,346,104. The difference is also recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund.

The requirements to amortize the general obligation bonds as of December 31, 2005, are presented in the following table. Debt service for the LTGO bonds is met by transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

**Table 8-2**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**GENERAL OBLIGATION BONDS**  
*(In Thousands)*

Year Ending December 31	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2006	\$ 70,400	\$ 36,425	\$ 1,101	\$ 3,602	\$ 111,528
2007	55,790	33,402	1,145	3,698	94,035
2008	46,310	30,960	1,179	3,810	82,259
2009	46,365	28,850	1,205	3,934	80,354
2010	42,475	26,719	1,226	4,068	74,488
2011-2015	199,255	104,141	8,778	20,163	332,337
2016-2020	162,080	58,818	20,930	12,622	254,450
2021-2025	109,495	26,047	32,560	6,026	174,128
2026-2030	51,735	8,604	3,000	308	63,647
2031-2032	10,170	658	-	-	10,828
Total	<u>\$ 794,075</u>	<u>\$ 354,624</u>	<u>\$ 71,124</u>	<u>\$ 58,231</u>	<u>\$ 1,278,054</u>

## REVENUE BONDS AND REVENUE ANTICIPATION NOTES

The City also issues revenue bonds and anticipation notes to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. At the end of 2004 the original amount of revenue bonds and anticipation notes issued in prior years was approximately \$3.6 billion. The total outstanding amount at December 31, 2004, was \$2.7 billion. During 2005 an additional \$138.0 million of revenue bonds were issued and \$4.0 million of revenue anticipation notes were issued as follows:

### Water

On December 28, 2005, the City issued \$138.0 million in Water System Revenue Refunding bonds, with varying annual principal payments due from September 1, 2006, through September 1, 2029, at interest rates ranging from 4.0 percent to 5.0 percent. The proceeds of the issuance were used to refund \$42.2 million of the 1997 Water System Revenue and \$91.4 million of the 1999 Water System Revenue, Series A bonds. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

### Solid Waste

On November 3, 2003, the City issued the Solid Waste Revenue bond anticipation notes (non-revolving line of credit). The City may draw on the line of credit an amount not to exceed \$21.3 million maturing on December 31, 2005. Draws on the line of credit in prior years amounted to \$7.6 million and the City made another \$4.0 million draw during 2005. Interest on the draw is at a variable rate equal to either the LIBOR-based (London Inter-Bank Offering Rate) rate or the prime-based rate, as designated by the Director of Finance or designee. During 2005 the City extended the maturity date of the line of credit to December 31, 2006.

The business-type funds had no short-term debt at December 31, 2005.

The following table presents the individual revenue bonds and anticipation notes outstanding as of December 31, 2005, and other pertinent information on each outstanding bond issue.



**Table 8-3 REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Dates	Effective Interest Rates <sup>a</sup>	Bond Issuance	Redemptions		Bonds Outstanding
					2005	To Date <sup>b</sup>	December 31
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
1990 Subordinate Lien	11/27/90	11/01/96-15	1.10-5.25	\$ 25,000	\$ 1,100	\$ 8,500	\$ 16,500
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	.088-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	1.30-6.00	20,000	1,600	6,500	13,500
1993 Subordinate Lien	11/17/93	11/01/99-18	.088-3.42	22,000	1,000	6,100	15,900
1995 Parity, Series B	10/16/95	09/01/98-05	4.446	2,305	456	2,305	-
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	1,000	28,945	1,055
1996 Subordinate Lien	12/11/96	06/01/02-21	1.00-5.75	19,800	745	2,805	16,995
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	1,010	2,910	27,090
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	4,975	8,245	96,405
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	2,720	5,335	84,665
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	-	138,250	19,750
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	-	-	98,830
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	5,645	9,380	494,320
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	12,450	19,990	67,745
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	24,525	34,440	217,410
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	7,370	7,370	277,485
Total Light and Power Bonds				1,753,725	64,596	281,075	1,472,650
MUNICIPAL WATER BONDS							
1995 Adjustable Rate	09/20/95	09/01/00-25	3.350	45,000	1,200	6,700	38,300
1997 Parity	04/08/97	08/01/97-26	5.712	53,000	43,315	50,510	2,490
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	1,700	10,525	69,475
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	1,920	10,440	89,560
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	93,410	100,770	9,230
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,050	1,050	51,475
2002 Adjustable Rate	05/15/02	05/15/03-32	3.440	32,500	1,200	2,400	30,100
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	3.450	32,500	-	1,200	31,300
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	10,160	37,320	234,000
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,930	1,930	82,820
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	-	-	138,040
Total Water Bonds				999,635	155,885	222,845	776,790
MUNICIPAL SEWER (DRAINAGE AND WASTEWATER) BONDS							
1995 Improvement/Refunding	12/28/95	12/01/96-25	5.309	40,390	1,140	7,870	32,520
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	500	3,520	20,650
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	1,015	5,235	49,765
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,100	4,195	56,485
2002 Improvement/Refunding	12/17/02	07/01/03-32	4.751	78,550	1,690	4,230	74,320
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	880	880	61,130
Total Drainage and Wastewater Bonds				320,800	6,325	25,930	294,870
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	3,755	23,770	17,130
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	210	1,135	4,365
Total Solid Waste Bonds				46,400	3,965	24,905	21,495
Total Utility Revenue Bonds				3,120,560	230,771	554,755	2,565,805
SOLID WASTE REVENUE ANTICIPATION NOTES							
2003 Line of Credit	11/03/03	12/31/2006	3.276	11,976	-	-	11,976
Total Utility Revenue Bonds and Anticipation Notes				\$ 3,132,536	\$ 230,771	\$ 554,755	\$ 2,577,781

<sup>a</sup> The ML&P subordinate lien bonds are variable rate bonds for which the life-to-date actual low and high rates are shown. The Municipal Water adjustable-rate bonds show the interest rate in effect at the end of 2005. These bonds are remarketed each week at market rates attained by remarketing agents, except for the 1990 and 1991B ML&P bonds which are in commercial paper mode and as such remarketed periodically for terms determined by the City at market rates obtained by remarketing agents. Interest rates in effect at December 31, 2005, were used to calculate annual interest requirements for these obligations. The interest rates on the Solid Waste revenue anticipation notes (line of credit) is the weighted average interest rate for all draws made since inception. This rate was used to calculate the annual interest requirement for the notes.

<sup>b</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

The requirements to amortize the revenue bonds and anticipation notes as of December 31, 2005, are presented below.

**Table 8-4**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
*(In Thousands)*

Year Ending December 31	Light		Water		Drainage and Wastewater		Solid Waste		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2006	\$ 63,435	\$ 72,258	\$ 22,790	\$ 34,461	\$ 6,755	\$ 14,881	\$ 16,146	\$ 1,567	\$ 232,293
2007	66,755	69,299	18,485	35,691	7,035	14,601	4,390	956	217,212
2008	70,460	65,961	19,630	34,850	7,320	14,307	4,635	716	217,879
2009	74,260	62,415	20,450	33,957	7,670	13,971	4,885	462	218,070
2010	78,230	58,681	21,455	32,981	8,015	13,615	265	194	213,436
2011-2015	385,835	239,102	123,070	149,019	46,225	61,992	1,560	738	1,007,541
2016-2020	362,165	142,944	155,620	116,653	59,290	49,065	1,590	241	887,568
2021-2025	300,540	58,090	169,945	75,686	64,240	32,824	-	-	701,325
2026-2030	70,970	5,158	122,720	37,320	62,890	15,832	-	-	314,890
2031-2035	-	-	102,625	7,170	25,430	2,523	-	-	137,748
Total	<u>\$ 1,472,650</u>	<u>\$ 773,908</u>	<u>\$ 776,790</u>	<u>\$ 557,788</u>	<u>\$ 294,870</u>	<u>\$ 233,611</u>	<u>\$ 33,471</u>	<u>\$ 4,874</u>	<u>\$ 4,147,962</u>

The following table shows the long-term liability activity during the year ended December 31, 2005.

**Table 8-5**

## CHANGES IN LONG-TERM LIABILITIES

*(In Thousands)*

	Restated <sup>a</sup> Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 835,020	\$ 129,540	\$ 170,485	\$ 794,075	\$ 70,400
Add (Deduct) Deferred Amounts					
Issuance Premiums	9,436	7,837	2,021	15,252	-
Issuance Discounts	(3)	-	-	(3)	-
On Refunding	(3,053)	(4,319)	(3,806)	(3,566)	-
Total Bonds Payable	841,400	133,058	168,700	805,758	70,400
Notes and Contracts					
Capital Leases	62	-	33	29	14
Other Notes and Contracts	21,233	2,750	2,093	21,890	2,257
Total Notes and Contracts	21,295	2,750	2,126	21,919	2,271
Compensated Absences	54,632	50,629	48,917	56,344	14,245
Claims Payable					
Workers' Compensation	17,382	6,097	6,515	16,964	5,601
General Liability	52,916	-	10,344	42,572	11,493
Health Care Claims	8,424	7,210	6,100	9,534	9,534
Total Claims Payable <sup>b</sup>	78,722	13,307	22,959	69,070	26,628
Arbitrage Rebate Liability	243	-	137	106	-
Total Long-Term Liabilities from Governmental Activities	<u>\$ 996,292</u>	<u>\$ 199,744</u>	<u>\$ 242,839</u>	<u>\$ 953,197</u>	<u>\$ 113,544</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 72,174	\$ -	\$ 1,050	\$ 71,124	\$ 1,101
Revenue Bonds	2,658,536	138,040	230,771	2,565,805	98,450
Add (Deduct) Deferred Amounts					
Issuance Premiums	62,392	7,027	5,418	64,001	-
Issuance Discounts	(3,901)	-	(980)	(2,921)	-
On Refunding	(67,492)	(8,535)	(6,982)	(69,045)	-
Total Bonds Payable	2,721,709	136,532	229,277	2,628,964	99,551
Revenue Anticipation Notes Payable	7,976	4,000	-	11,976	11,976
Accrued Interest - Deferred Interest Bonds	3,695	704	370	4,029	459
Notes and Contracts - Other	1,979	18,245	5,443	14,781	5,591
Compensated Absences	19,559	23,855	22,876	20,538	1,486
Claims Payable					
Workers' Compensation	6,249	1,971	2,151	6,069	2,005
General Liability	16,999	2,884	4,070	15,813	4,272
Muckleshoot Liability	-	18,000	-	18,000	18,000
Environmental Liability					
General Contamination Cleanup	14,880	6,480	3,953	17,407	4,340
Total Claims Payable <sup>b</sup>	38,128	29,335	10,174	57,289	28,617
Landfill Closure and Postclosure Costs	31,029	-	1,747	29,282	1,610
Purchased Power Obligation	35,663	-	9,772	25,891	11,240
Total Long-Term Liabilities from Business-Type Activities	<u>\$ 2,859,738</u>	<u>\$ 212,671</u>	<u>\$ 279,659</u>	<u>\$ 2,792,750</u>	<u>\$ 160,530</u>

<sup>a</sup> Seattle Public Utilities reclassified \$147,000 of Notes and Contracts as part of beginning balance in its Drainage and Wastewater Fund.

<sup>b</sup> See Note 14, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 14 also includes information on workers' compensation and health care.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year notes and contracts, compensated absences, and claims payable of these funds amounted to approximately \$0.7 million, \$3.4 million, and \$1.4 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds, except for the Engineering Services Fund which pays its own general liability, are liquidated using the General Fund. Liabilities for compensated absences for governmental activities in governmental funds that have department operating budgets, though they are reported as general obligation of the City, are paid from these funds when these compensated absences are used by the employees or cashed out by them at termination or retirement. Arbitrage rebate liabilities in governmental activities are paid as they are due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 13, Commitments.

## ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs, the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds to refund certain prior bond issues and also used its own resources to defease certain prior bond issues. City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the Statement of Net Assets. The following paragraphs discuss the advance and current refundings that occurred in 2005.

The refunding portion of the \$129.5 million LTGO Improvement and Refunding Bonds, 2005, issued on March 23, 2005, in the amount of \$71.5 million refunded \$9.7 million of the 1995 LTGO, \$10.5 million of the 1997 LTGO, Series A, and \$49.9 million of the 1999 LTGO, Series B, bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$121.6 million, including \$51.5 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$114.1 million including interest of \$42.6 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$7.4 million, and the aggregate economic gain amounted to \$4.7 million at net present value.

The Water System Revenue Bonds, 2005, issued on December 28, 2005, in the amount of \$138.0 million refunded \$42.2 million of the Water System Revenue Bonds, 1997, and \$91.4 million of the Water System Revenue Bonds, 1999, Series B. The aggregate total debt service on the refunded bonds requires a cash flow of \$253.2 million including interest of \$119.7 million. The aggregate total debt service on the refunding bonds requires a cash flow of \$237.0 million including interest of \$99.0 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$16.2 million, and the aggregate economic gain amounted to \$11.4 million at net present value.

The following is a schedule of outstanding bonds that are either refunded or defeased.

Table 8-6

REFUNDED/DEFEASED BONDS  
(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2005	Defeased Outstanding December 31
<b>GENERAL OBLIGATION BONDS</b>							
Limited Tax (Non-Voted)							
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122	\$ 28,670	\$ 9,685	\$ -	\$ 9,685
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	88,000	-	88,000
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	10,475	-	10,475
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	620	-	620
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	49,865	-	49,865
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	8,470	-	8,470
<b>REVENUE BONDS</b>							
Municipal Light and Power							
1977 Parity	08/01/77	08/01/77-05	5.343	29,000	21,300	21,300	-
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	182,345	182,345	-
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	97,255	97,255	-
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	53,610	53,610	-
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	25,225	-	25,225
1999 Parity	10/27/99	10/01/06-23	5.960	158,000	138,250	-	138,250
Municipal Water							
1977 Parity	04/08/97	08/01/97-26	5.712	53,000	42,155	-	42,155
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	91,360	-	91,360
Total Refunded/Defeased Bonds				\$ 1,416,155	\$ 818,615	\$ 354,510	\$ 464,105

## ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid \$1.3 million arbitrage rebate in 2004 and none in 2005 on the City's general obligation bonds. The City paid no rebate in 2004 and 2005 for ML&P, Water System, Drainage and Wastewater, and Solid Waste revenue bonds. The City estimated and recognized as of the end of 2005 an arbitrage rebate liability of approximately \$106,000 on general obligation bonds, none estimated to be due in 2006. There is no arbitrage liability at the end of 2005 on each of the City's revenue bonds.

## (9) FUND EQUITY

The following table compares the total legally required encumbrance and other appropriation carryovers with the amounts reported in the balance sheet as reserved for encumbrances, capital improvements, continuing appropriations, debt service, endowments, and gifts.

Grant awards usually extend beyond the end of the fiscal year, and so any unspent budget amounts for grants at the end of the year are carried over to the following year. Funding for these grants comes from revenues that are anticipated to be received in the following years. For this reason it is not necessary to reserve part of the fund balance for the amount of the grants continuing appropriations.

In certain capital projects not all of the fund balances were appropriated. However, the total fund balances were reserved for capital improvements.

Additionally, some budget carryovers are not reported because either the fund balance is insufficient or the City Council plans to abandon the remaining budget.

**Table 9-1**

**RESERVED FUND BALANCES**  
*(In Thousands)*

Governmental Funds	Legally Required Carryovers			Reserved for Encumbrances, Capital Improvements, Continuing Appropriations, and Debt Service	
	Outstanding Encumbrances	Continuing Appropriations	Total	Reported	Not Reported
<b>BUDGETED</b>					
General	\$ 14,902	\$ 58,331	\$ 73,233	\$ 82,152	\$ (8,919)
Special Revenue					
Annually Budgeted/Operating	40,307	78,016	118,323	49,282	69,041
Nonoperating	5,624	20,080	25,704	7,404	18,300
Capital Projects	32,956	101,685	134,641	109,048	25,593
Total Budgeted	93,789	258,112	351,901	247,886	104,015
<b>NONBUDGETED</b>					
Debt Service	-	15,109	15,109	15,109	-
Total Nonbudgeted	-	15,109	15,109	15,109	-
Total Reserved Fund Balances	\$ 93,789	\$ 273,221	\$ 367,010	\$ 262,995	\$ 104,015

## (10) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The first three plans are considered as part of the City's reporting entity and are reported as pension trust funds. The State of Washington through the Department of Retirement Systems (DRS) administers and reports LEOFF.

**Table 10-1**
**PENSION PLAN INFORMATION**

	<b>Employees' Retirement</b>	<b>Firemen's Pension</b>	<b>Police Relief and Pension</b>	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Actuarial Valuation Date	1/1/2006	1/1/2006	1/1/2006	9/30/2004	9/30/2004
Actuarial Cost Method	Entry Age	Projected Unit Credit	Projected Unit Credit	Entry Age	Aggregate <sup>a</sup>
Asset Valuation Method	Fair Value	Fair Value	Fair Value	8-Year Graded Smoothed Fair Value <sup>b</sup>	8-Year Graded Smoothed Fair Value <sup>b</sup>
Amortization					
Method	Level %	Level \$	Level \$	Level %/Level \$ <sup>c</sup>	N/A
Period	30.0 years	12.0 years <sup>d</sup>	12.9 years <sup>d</sup>	20 years	N/A
Approach	Open	Open	Open	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	4.00%	4.00%	3.50%	3.50%
Investment Rate of Return	7.75%	5.125%	5.125%	8.00%	8.00%
Projected Salary Increases	4.00%	4.00%	4.00%	11.70%	11.70%
Postretirement Benefit Increases	0.67%	CPI (Seattle) Increase 2% Minimum	CPI (Seattle) Increase 2% Minimum	CPI Increase	CPI Increase Maximum 3%

<sup>a</sup> The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

<sup>b</sup> The actual value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption.

<sup>c</sup> Funding is Level %; GASB is Level \$.

<sup>d</sup> The Annual Required Contribution has been developed to equal actual employer contributions. The methodology used is a level payment with an open amortization period. This means the amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions. This methodology is acceptable under GASB Statement Nos. 25 and 27 provided the amortization period remains within GASB guidelines.

## SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

### Plan Description

The Seattle City Employees' Retirement System (SCERS) is a single-employer defined-benefit public employee retirement system established and administered by the City in accordance with Seattle Municipal Code (SMC) 4.36.

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2005:

Retirees and Beneficiaries Receiving Benefits	5,011
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,621
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	245
Active Plan Members, Vested and Non-vested	8,521

The system provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2 percent multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20-29 years of service, at age 57 or older with 10-19 years of service, and at age 62 or older with 5 to 9 years of service. These benefit provisions and all other requirements are established and may be amended by City ordinances.

The Seattle City Employees' Retirement System issues a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the web site [http://www.seattle.gov/retirement/annual\\_report.htm](http://www.seattle.gov/retirement/annual_report.htm)

## Summary of Significant Accounting Policies

### Basis of Accounting

The Seattle City Employees' Retirement System is accounted for as a pension trust fund. The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting as discussed in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Investments, including security lending transactions, as discussed in Note 3, are reported at fair market value. The fair market value of investments in common stock, international equities, fixed income, international fixed income, and short-term investments is based on the quoted market price. The fair market value of venture capital and real estate equities has been determined by independent appraisers. Securities and security lending transactions are reflected in the financial statements on a trade-date basis. Investment policies as set by the Retirement Board require that investments in any one corporation or organization may not exceed 5 percent of net assets available for benefits.

## Contributions and Reserves

Member and employer contribution rates are established by SMC 4.36.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. Funds accumulated and investment earnings are used to pay present and future benefit obligations and administrative expenses. The employer contribution rate is determined by the actuarial formula identified as the Entry-Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total necessary contributions, including amounts necessary to pay administrative costs, are determined through biennial actuarial valuations.

Actuarially determined contribution rates are currently 8.03 percent for members and 8.03 percent for the employer. There are no long-term contracts for contributions outstanding and no legally required reserves.

As of December 31, 2005, based on the actuarial valuation of January 1, 2006, the actuarial value of plan net assets available for benefits was \$1,791.8 million, and the actuarial accrued liability was \$2,017.5 million. The unfunded actuarial accrued liability (UAAL) was \$225.8 million and the funding ratio was 88.8 percent.

Three-year trend information (in thousands) is shown below:

<u>Fiscal Year Ending December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Total Employer Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
2003	\$ 31,883	\$ 34,201	107 %	\$ (74,501)
2004	34,921	36,682	105	(76,262)
2005	34,095	35,897	105	(78,064)



Annual pension cost (APC) and net pension obligation (NPO) (in thousands) were:

Fiscal Year Ending December 31	Annual Required Contribution (ARC) at End of Year	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Beginning Balance	NPO Ending Balance
2005	\$ 35,897	\$ (5,910)	\$ 4,108	\$ 34,095	\$35,897	\$ (1,802)	\$ (76,262)	\$ (78,064)

Authority to change benefits and contribution rates rests on the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate. This is the reason why the City's contributions exceeded the ARC prior to 2002 and resulted in negative NPO amounts.

Trend data on funding progress and employer contributions including pension information notes are presented in the Required Supplementary Information Section, Pension Plan Information.

### FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

#### Plan Description

The Firemen's Pension and the Police Relief and Pension Funds are single-employer defined benefit pension plans that were established by the City in compliance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20.

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and fire fighters on March 1, 1970, under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI - Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans; and those hired between March 1, 1970, and September 30, 1977, are eligible for a supplemental retirement benefit plus sick benefits under these plans. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death and disability pension benefits plus sick benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 1,047 fire and 971 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare.

The only postemployment benefits the City provides, other than death benefits, are medical benefits in the Firemen's and Police Relief and Pension plans, and these are financed on a pay-as-you-go basis. Total postemployment medical benefits for Firemen's Pension were \$7.2 million in 2005 and \$7.3 million in 2004; and for Police Relief and Pension, \$8.3 million in 2005 and \$7.6 million in 2004.

The Firemen's Pension and Police Relief and Pension benefit provisions are established in the state statute, RCW 41.16, 41.18, and 41.20, and may be amended only by the state legislature. Retirement benefits are determined under RCW 41.18 and 41.26 for Firemen's Pension and RCW 41.20 and 41.26 for Police Relief and Pension. Medical benefit payments for both plans are based on estimates of current and expected experience.

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2005:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	953	780
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	82	74
Active Plan Members, Nonvested	-	-

These pension plans do not issue separate financial reports.

## Summary of Significant Accounting Policies

The Firemen's Pension and Police Relief and Pension Funds are accounted for as pension trust funds. The financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting as shown in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transaction or events occur. Employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

Investments are recorded at fair value as shown in Note 3. Fair value of investments is based on quoted market prices.

## Contributions and Reserves

Since these two pension plans were closed to new members effective October 1, 1977, the City did not need to adopt a plan to fund the actuarial accrued liability (AAL) but is paying benefits as they become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to \$0.45 per \$1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through the General Fund adopted budget is provided to both pension funds as necessary. The Police Relief and Pension Fund also gets police auction proceeds of unclaimed property. Administrative costs for the Firemen's Pension are financed by real estate property tax and fire insurance premium tax. Administrative costs for the Police Relief and Pension are financed by police auction proceeds and General Fund support. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for the Firemen's Pension and the Police Relief and Pension Funds as of the January 1, 2005, valuation are:

Retirement System	Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
Firemen's Pension Fund	2003	\$ 9,167	100 %	\$ -
	2004	9,315	100	-
	2005	9704	100	-
Police Relief and Pension Fund	2003	7,403	100	-
	2004	8,244	100	-
	2005	7,187	100	-

There are no securities held by the City for these pension funds except for the Firemen's Pension Actuarial Account described below. No loans are provided by the funds to the City or other related parties.

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of \$6.5 million as of December 31, 2005. The funding policy does not fund for future medical liabilities. No similar program has been established for the Police Relief and Pension Fund.

The AAL as of December 31, 2005, based on the actuarial valuation as of January 1, 2006, was \$108.6 million for Firemen's Pension and \$70.6 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a

pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2005.

**Table 10-2** **STATEMENT OF NET ASSETS**  
**FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS**  
**December 31, 2005**  
*(In Thousands)*

	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>				
Cash and Equity in Pooled Investments	\$ 9,120	\$ 3,386	\$ 12,506	\$ 11,409
Investments at Fair Value				
U.S. Government Obligations	454	-	454	451
Receivables				
Employer - Due from Other Funds	-	9	9	11
Interest and Dividends	<u>18</u>	<u>-</u>	<u>18</u>	<u>2</u>
Total Receivables	18	9	27	13
Equipment, at Cost, Net of Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	9,592	3,395	12,987	11,873
<b>LIABILITIES</b>				
Refunds Payable and Other - Due to Other Funds	-	25	25	37
Refunds Payable and Other - Other	<u>876</u>	<u>1,403</u>	<u>2,279</u>	<u>3,864</u>
Total Liabilities	<u>876</u>	<u>1,428</u>	<u>2,304</u>	<u>3,901</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 8,716</u>	<u>\$ 1,967</u>	<u>\$ 10,683</u>	<u>\$ 7,972</u>

Table 10-3

**STATEMENT OF CHANGES IN  
PLAN NET ASSETS  
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS  
For Year Ended December 31, 2005  
(In Thousands)**

	Defined Benefit		Postemployment Healthcare		Comparative Totals	
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2005	2004
<b>ADDITIONS</b>						
Contributions						
Employer	\$ 9,704	\$ 7,187	\$ 7,195	\$ 8,287	\$ 32,373	\$ 32,441
Total Contributions	9,704	7,187	7,195	8,287	32,373	32,441
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in						
Fair Value of Investments	(48)	-	-	-	(48)	(53)
Interest	186	-	-	-	186	130
Total Net Investment Income	138	-	-	-	138	77
Total Additions	9,842	7,187	7,195	8,287	32,511	32,518
<b>DEDUCTIONS</b>						
Benefits	6,878	6,633	7,195	8,287	28,993	29,445
Administrative Expense	468	339	-	-	807	703
Total Deductions	7,346	6,972	7,195	8,287	29,800	30,148
Change in Net Assets	2,496	215	-	-	2,711	2,370
Net Assets - Beginning of Year	6,220	1,752	-	-	7,972	5,602
Net Assets - End of Year	\$ 8,716	\$ 1,967	\$ -	\$ -	\$ 10,683	\$ 7,972

Pension trend data on funding progress and employer contributions for the Firemen's Pension and the Police Relief and Pension are presented in the Required Supplementary Information under Pension Plan Information.

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF)  
PLANS 1 AND 2**

**Plan Description**

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF was established in 1970 by the state Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. Membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the legislature for Plan 2. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. The state of Washington through DRS administers LEOFF.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by DRS. During fiscal year 2005 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with 5 years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<u>Term of Service</u>	<u>Percent of FAS</u>
20 +	2.0 %
10 - 19	1.5 %
5 - 9	1.0 %

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes 5 years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with 5 years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) if there is an eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if there is no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53 and to reflect the choice of a survivor option.

Plan 2 members who leave service because of a line-of-duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, Plan 2 members who leave service because of a line-of-duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary and two percent per year of service beyond 5 years. The first 10 percent of the FAS is not subject to federal income tax. The line-of-duty disability benefit applies to all Plan 2 members disabled in the line of duty on or after January 1, 2001.

Legislation passed in 2005, effective May 13, 2005, removed the actuarial reduction for the difference between age 53 and the age of retirement, if the disability was incurred in the line of duty.

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2005.

LEOFF pension benefit provisions have been established by RCW 41.26.

There are 111 participating employers in LEOFF Plan 1 and 369 participating employers in Plan 2 as of June 30, 2005. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of September 30, 2004.

	<u>Plan 1</u>	<u>Plan 2</u>
Retirees and Beneficiaries Receiving Benefits	8,110	432
Terminated Members Entitled To But Not Yet Receiving Benefits	7	521
Active Plan Members, Vested	848	11,231
Active Plan Members, Nonvested	-	3,523
Total	<u>8,965</u>	<u>15,707</u>

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 157 under Plan 1 and 2,085 under Plan 2.

The state Department of Retirement Systems prepares a stand-alone financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their web site at <http://www.drs.wa.gov/administration/default.htm>.

## Summary of Significant Accounting Policies

LEOFF plans are accounted for in pension trust funds of DRS using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages have been valued at cost which approximates fair market value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or by independent advisors. LEOFF pension plans have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan net assets.

## Contributions and Reserves

### Funding Policy

Plan members together with their employers and the state provide funding for all costs of the system based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the Plan 2 Board in accordance with RCW 41.45. All employers are required to contribute at the level required by state law.

Required contribution rates for cities (expressed as a percentage of current year covered payroll) effective September 1, 2005 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense of 0.19%)	0.19 %	4.39 %
Employee	0.00	6.99
State of Washington Contributions	N/A	2.79

Administration of the LEOFF plans was funded by an employer rate of 0.19 percent of employee salaries.

The Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2005 the state contributed \$21.2 million to Plan 2.

## Employer Contributions Required and Paid

LEOFF annual required contributions (in millions) and percentage contributed in accordance with the funding policy were:

Year	Plan 1		Plan 2	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	\$ -	N/A	\$ 56.8	74 %
2004	-	N/A	69.2	74
2005	-	N/A	80.8	67

The City of Seattle required and actual contributions (in thousands) are shown in the following table. Percentages contributed are not available.

	Plan 1	Plan 2
2003	\$ 33	\$ 4,511
2004	28	4,941
2005	23	6,149

There are no long-term contracts for contributions under the LEOFF retirement plans.

## Reserves

**Member Reserves.** The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded. Member reserves (in thousands) were:

	June 30, 2005	June 30, 2004
Plan 1	\$ 94,633	\$106,753
Plan 2	1,000,804	915,700

**Benefit Reserves.** The benefit reserves reflect the funded liability associated with all retired members. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses. Benefit reserves (in thousands) were:

	June 30, 2005	June 30, 2004
Plan 1	\$4,938,445	\$4,602,142
Plan 2	2,410,864	2,011,038

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans.

## DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

## (11) COMPONENT UNIT

### SEATTLE PUBLIC LIBRARY FOUNDATION

The Seattle Public Library Foundation is a Washington non-profit corporation, a public charity organized exclusively for educational, charitable, and scientific purposes for the benefit and support of the Seattle Public Library by providing goods and services and facilities over and above what the traditional tax-based funding of Seattle Public Library has provided. The foundation is located in Seattle, has all the corporate powers to carry out the purposes for which it is formed, and is governed by a Board of Directors. Although the City of Seattle is not financially accountable for the Seattle Public Library Foundation, the foundation is considered a component unit and is discretely presented in the City's financial statements because of the following: (1) the economic resources received or held by the foundation are entirely for the direct benefit of the Seattle Public Library; (2) the Seattle Public Library is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the foundation because the foundation has a history of supporting the library, and (3) the economic resources received or held by the foundation that the library is entitled to or has the ability to otherwise access are significant to the library.

The Seattle Public Library Foundation reports on a fiscal year-end consistent with the City of Seattle, the primary government. The Foundation issues its own audited financial statement. These statements are available at the Seattle Public Library Foundation at 1000 4th Avenue, Seattle, WA 98104, or by telephone at 206-386-4130.

Table 11-1

**CONDENSED STATEMENT OF NET ASSETS**  
**SEATTLE PUBLIC LIBRARY FOUNDATION**  
**December 31, 2005**  
*(In Thousands)*

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash, Investments, and Other Assets	\$ 52,168	\$ 57,018
Capital Assets, Net	9	17
Total Assets	52,177	57,035
<b>LIABILITIES</b>		
Current Liabilities	1,259	2
Total Liabilities	1,259	2
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	9	17
Restricted	42,330	50,102
Unrestricted	8,579	6,914
Total Net Assets	<u>\$ 50,918</u>	<u>\$ 57,033</u>



**Table 11-2**

**CONDENSED STATEMENT OF ACTIVITIES  
SEATTLE PUBLIC LIBRARY FOUNDATION  
For Year Ended December 31, 2005  
(In Thousands)**

	<b>2005</b>	<b>Restated 2004</b>
<b>EXPENSES</b>		
Support to Seattle Public Library	\$ 11,411	\$ 22,676
Management and General	325	313
Fundraising	466	486
Depreciation	50	45
Total Expenses	12,252	23,520
<b>PROGRAM REVENUES</b>		
Contributions/Endowment Gain	2,904	8,023
Charges for Services	183	-
Total Program Revenues	3,087	8,023
Net Program (Expense) Received	(9,165)	(15,497)
<b>GENERAL REVENUES</b>		
Investment Income	3,050	3,867
Change in Net Assets	(6,115)	(11,630)
<b>NET ASSETS</b>		
Net Assets - Beginning of Year	57,033	68,663
Net Assets - End of Year	\$ 50,918	\$ 57,033

## **(12) JOINT VENTURES**

### **SEATTLE-KING COUNTY DEPARTMENT OF PUBLIC HEALTH**

In 2004 the Seattle-King County Department of Public Health was a joint venture between the City and King County. In 2005 the joint venture was terminated and the City contracted directly with service providers for the delivery of public health services.

### **SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL**

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEOs) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If an expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, from King County and the City of Seattle, which will each be responsible for one-half of the disallowed amount. As of December 31, 2005, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the WIA Youth In-School Program. For 2005, WDC has paid \$0.74 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

## (13) COMMITMENTS

### GENERAL

#### Capital Improvement Program

The City adopted the 2005-2006 Capital Improvement Program (CIP), which functions as a capital financing plan for the years 2005-2010, totaling \$3.0 billion. The adopted CIP for 2005 was \$479.3 million, consisting of \$303.7 million for City-owned utilities and \$175.6 million for nonutility departments. The utility allocations are: \$161.7 million for City Light, \$79.1 million for Water, \$42.7 million for Drainage and Wastewater, \$11.0 million for Solid Waste, and \$9.2 million for Seattle Public Utilities' technology projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

### CITY LIGHT

Power received under long-term purchased power agreements in average annual megawatts (aaMW) is shown in the following table.

**Table 13-1** **LONG-TERM PURCHASED POWER**  
*(In Average Annual Megawatts)*

	<u>2005</u>	<u>2004</u>
Bonneville Block	109.4	137.8
Bonneville Slice	385.1	392.8
Lucky Peak	25.8	31.3
British Columbia - Ross Dam	35.4	34.8
City of Klamath Falls	66.4	81.8
State Line Wind	37.4	39.7
Pend Oreille County Public Utility District	3.0	6.7
Grant County Public Utility District	32.9	36.0
Grand Coulee Project Hydroelectric Authority	28.5	28.9
British Columbia-Boundary Encroachment	1.7	1.5
Exchange Energy	0.2	12.4
Other	-	0.7
Total Long-Term Purchased Power	725.8	804.4

### Purchased and Wholesale Power

#### *Bonneville Power Administration*

City Light (the Utility) purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides power equal to the Utility's annual net requirement, defined as the difference between projected load and firm resources declared to serve that load. The Block product provides fixed amounts of power per month. The terms of the Slice product specify that the Utility will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Utility's same percentage (4.6676 percent) of the expected costs of the system and is subject to true-up adjustments based on actual costs. Subsequent amendments to the contract provide that Bonneville will pay the Utility for energy savings realized through specified programs.

#### *Lucky Peak*

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Utility includes as an asset and liability the outstanding principal of the project's debt net of the balance in the project's reserve account.

## British Columbia-Ross Dam

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with power equivalent to that which would result by increasing the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. Power delivery began in 1986, and power is to be received for 80 years.

In addition to the direct costs of power under the agreement, the Utility incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years through 2035.

## Estimated Future Payments under Purchase Power and Transmission Contracts

The Utility's estimated payments under its contract with BPA, the Public Utility Districts (PUDs), irrigation districts, Lucky Peak Project, British Columbia – High Ross Agreement, Klamath Falls, PacifiCorp Power Marketing Inc. (PPM Energy) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with BPA and others for the period from 2006 through 2065, undiscounted, are shown in the following table.

**Table 13-2** **ESTIMATED FUTURE PAYMENTS UNDER**  
**PURCHASE POWER CONTRACTS AND TRANSMISSION CONTRACTS**  
*(In Thousands)*

<u>Year Ending</u> <u>December 31</u>	<u>Estimated</u> <u>Payments</u>
2006	\$ 292,797
2007	298,884
2008	282,877
2009	268,642
2010	274,865
Thereafter <sup>a</sup>	<u>1,549,996</u>
Total	<u>\$ 2,968,061</u>

<sup>a</sup> Bonneville Block and Slice contract expires September 30, 2011. Bonneville transmission contract expires July 31, 2025.

The effects of a proposed Northwest Regional Transmission Organization and other changes that could occur to transmission as a result of FERC's implementation of the Federal Power Act as amended August 8, 2005, are not reflected in the estimated future payments.

Payments under these long-term contracts totaled \$239.4 million and \$234.6 million in 2005 and 2004, respectively. Payments under the transmission agreements amounted to \$31.3 million and \$30.7 million in 2005 and 2004, respectively.

## Skagit and South Fork Tolt Licensing Mitigation and Compliance

In 1995 FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Utility has taken and will continue to take required mitigating and compliance measures. Total Skagit mitigating costs from the effective date until expiration of the federal operating license were estimated at December 31, 2005, to be \$115.2 million, of which \$81.6 million was expended; and estimated costs for South Fork Tolt, were \$5.2 million, and \$0.3 million was expended. Capital improvements, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

## Application Process for New Boundary License

The Utility's FERC license for the Boundary Project expires on September 30, 2011. The Utility intends to submit an application for a new license by October 2009. Application process costs are estimated at \$48.5 million; as of December 31, 2005, \$6.6 million was expended and deferred. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Cost projections for new license requirements are not included in the forecast.

## *Endangered Species*

Several fish species that inhabit waters where hydroelectric projects are owned by the Utility or where the Utility purchases power have been listed under the Endangered Species Act (ESA) as threatened or endangered. On the Columbia River system the National Oceanographic Atmospheric Administration (NOAA) Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. As a result, the Utility's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

In Puget Sound both bull trout and chinook salmon have been listed as threatened. A draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. Final critical habitat has been designated for Puget Sound chinook salmon. A recovery plan for Puget Sound chinook salmon and bull trout, developed by regional stakeholders has been proposed for adoption by NOAA Fisheries. The U.S. Fish and Wildlife Service has agreed to support this plan when approved by NOAA Fisheries. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects; and chinook salmon occur downstream of these projects. Steelhead, which are also present downstream of these projects, are undergoing a one-year review by NOAA Fisheries for potential listing as a threatened species in Puget Sound. The decision to list steelhead is expected to be finalized by the end of 2006. While it is unknown how other listings will affect the Utility's hydroelectric projects and operations, the Utility is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and chinook salmon on the Skagit and Tolt. The Utility will be participating in the implementation of this plan on both the regional and watershed levels. On the Cedar the Utility's activities are covered by a Habitat Conservation Plan that authorizes operations with regard to all listed species. Hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a FERC license. Estimated total costs through 2011 at December 31, 2005, for the Endangered Species Act were \$9.9 million, of which \$4.8 million had been expended.

## *Project Impact Payments*

Effective November 1999 the Utility committed to pay a total of \$11.6 million and \$7.8 million over ten years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for the impacts on county governments from the operations of the Utility's hydroelectric projects. The payments compensate the counties and certain school districts and towns located in these counties for lost revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including an annual inflation factor of 3.1 percent, and retroactive payments totaled \$1.2 million to Pend Oreille County in 2005 and 2004, and \$0.8 million to Whatcom County in each year.

## *Streetlight Litigation*

In November 2003 the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the general rate base for Seattle and Tukwila customers was unlawful. As a result of this decision, the Utility resumed billing the City of Seattle for streetlight costs. On May 21, 2004, trial court proceedings resulted in a ruling that the Utility be required to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. The ruling also provided that the City of Seattle General Fund will have to repay the Utility for the streetlight costs that would have been billed over the same period.

The judgment was entered in October 2004 and required the City of Seattle General Fund to pay approximately \$23.9 million to the Utility, an amount representing billings for streetlight services that should have been made to the City from late December 1999 through November 2003. In addition, the judgment required the City's General Fund to pay approximately \$222,000 to the Utility for "loss of use" of funds, calculated as a percentage of the difference between the amount that should have been billed to the City and the amount paid by ratepayers for streetlight services. Payments were due on an installment schedule. The Utility received \$6.2 million in 2004, an additional \$6.2 million in January 2005, and the final \$12.9 million in April 2005.

The Utility was to refund to ratepayers in Seattle and Tukwila the amount of streetlight costs billed to them from January 2000 through November 2003. Gross refunds were estimated to be \$21.5 million, plus \$2.6 million to compensate ratepayers for "loss of use" of funds. Plaintiffs' attorney fees totaling \$3.3 million and \$0.7 million in administrative costs related to the refunds were deducted from the gross refund amount, leaving \$20.0 million to be refunded to ratepayers. In 2005, refunds to current customers totaling \$15.7 million were made by providing a credit on their electric utility bills. Currently inactive customers who received one or more billings during the period from January 2000 through November 2003 received refund checks during 2005 totaling \$0.4 million.

The Utility recorded the \$2.4 million difference between the \$23.9 million in payments from the City of Seattle and the \$21.5 million in customer refunds as other operating revenues in 2004. During 2005 it was determined that the City overpaid the amount due to the Utility by \$1.1 million, and the overpayment was refunded.

In addition, the partial judgment entered in October 2004 found that the City of Seattle had inappropriately allocated to the Utility certain central costs and ordered the City to refund approximately \$1.0 million in such costs, including an allowance for “loss of use” of funds to the Utility.

Also in this partial judgment, the City of Seattle’s One Percent for Art Ordinance was declared invalid as applied to the Utility. The City appealed this ruling. On December 19, 2005, the Washington Court of Appeals reversed the trial court’s ruling that had declared the ordinance invalid as applied to the Utility but affirmed the trial court’s ruling that art funded by the Utility must have a “sufficiently close nexus” to the Utility’s purpose of providing electricity. Consequently, in 2005 the Utility recorded a reduction of \$1.0 million in the One Percent for Art assets to comply with the court’s ruling.

### **SEATTLE PUBLIC UTILITIES (SPU)**

#### **Water Fund**

##### ***Cedar River Watershed***

Seattle Public Utilities prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the Seattle Public Utilities and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The Federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$90.0 million (in 2002 dollars) over a period of 50 years. Expenses are expected to be funded from a combination of operating revenues and debt.

The Water Fund is required by the State Department of Health to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be \$30.0 million. Seattle Public Utilities is authorized a loan of \$4.0 million from the State Department of Health to fulfill its obligation to improve the security of the drinking water system. As of December 31, 2005, the loan from the State Department of Health was not executed.

#### **Drainage and Wastewater Fund**

##### ***Duwamish Site***

The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its “Superfund” authority. No specific requirements for remediation by potentially liable parties (PLP) have been made by EPA at the time of this note. In order to manage the liability, the City of Seattle is working with EPA and other PLPs on a Remedial Investigation (RI) and Feasibility Study (FS) to evaluate the risk to human health and the environment, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that EPA may require. Prior to the issuance of an EPA ruling on Duwamish River-wide liability, SPU, together with other PLPs, has voluntarily agreed to initiate clean-up of certain early action sites identified during the RI. The EPA is expected to provide a ruling on river-wide liability in 2008. The reserve includes SPU’s share of early-action site study and clean-up expense at two sites and SPU’s estimated expense for completing the RI and FS.

##### ***Gasworks Park Sediment Site***

In April 2002 the Department of Ecology (DOE) named the City as a PLP at the Gas Works Park sediment site at North Lake Union. The City, with SPU as lead, is working with DOE and another PLP on an RI and FS to investigate contamination; evaluate the risk to human health and the environment; and evaluate site clean-up options. The reserve includes estimated technical costs for the completion of the RI and FS and associated legal costs.

##### ***Wastewater Disposal Agreement***

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division’s budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. The 2005 and 2004 payments to the Division were approximately \$89.6 million and \$83.1 million, respectively.

## Solid Waste Fund

### *Contractual Obligations*

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky items collection and backyard service. Residential collection contracts with two private companies were implemented in April 2000. The contracts end March 31, 2007, but the City retains the option to extend the contracts until March 31, 2008, or March 31, 2009. Total payments during 2005 and 2004 were approximately \$22.6 million and \$23.1 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two state-franchised haulers. In 1996 and again in 2001 the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2009. In exchange, WWS agreed to change the contract prices from \$44.87 per ton in 1996 to \$41.57 per ton beginning April 1, 1997, and \$43.73 per ton beginning April 1, 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90 percent of the Seattle-Tacoma CPI to 80 percent, effective April 1, 1998, and to 70 percent of CPI beginning April 1, 2003. WWS also agreed to further reduce the CPI-adjusted tonnage rate by \$1.50 per ton for rates effective April 1, 2003, 2005, and 2007. The Utility paid WWS \$18.8 million in 2005 and \$19.9 million in 2004 under this contract.

For several years the City negotiated with the state-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. Payments under these contracts totaled approximately \$15.3 million and \$15.4 million in 2005 and 2004, respectively. The contracts will expire on March 31, 2008, but the City retains an option to extend them to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc., and changes to the disposal contract. The first opt-out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of \$1.50 per ton in 2003, an additional \$1.50 per ton in 2005, and a final \$1.50 per ton in 2007. Under this contract the Utility paid \$1.4 million and \$1.3 million in 2005 and 2004, respectively.

### *Landfill Closure and Postclosure Care*

At December 31, 2005 and 2004, accrued landfill and postclosure costs consisted primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from ratepayers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and deferred costs when identified.

In prior years SPU delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Solid Waste Fund stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

Subsequent to their closings, both Kent-Highlands and Midway landfills were declared Superfund sites by the federal government. In the same time period nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to the Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996 the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) were liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.2 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.

## **(14) CONTINGENCIES**

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over \$2.5 million per occurrence self-insured retention and includes a \$25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002, the City's excess general liability insurance covers losses over \$5.0 million per occurrence self-insured retention, with a \$25.0 million limit per occurrence and in the aggregate.

In 2005 the City purchased an excess liability insurance policy to address general, automobile, professional, public official, and other exposures. The policy has limits of \$25 million above a \$5 million self-insured retention for each occurrence. The City also purchased an all-risk property insurance policy that provides \$500 million in limits above a \$500,000 deductible (for most buildings) with \$100 million in earthquake and flood limits and \$100 million in terrorism limits, with boiler and machinery, building risk, and electronic data processing coverage endorsements. Hydroelectric and other utility producing/processing projects owned by the City are not covered by the property policy. Insurance is also in place for excess workers' compensation, fiduciary and crime liability, contractors' equipment, transportation, inland marine, fine arts, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notary public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2005 to resolve litigation. No structured settlements were entered into by the City in 2005. No large liability settlements were received from an insurer in 2005 or 2004; and no settlements made in 2005, 2004, or 2003 were in excess of insurance coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. The ultimate cost of settling claims was estimated for lawsuits, workers' compensation, and other claims based on independent actuarial studies performed as of year-end 2004, and for health care as of year-end 2005. IBNR undiscounted totaled \$10.4 million and \$46.0 million at December 31, 2005 and 2004, respectively. The \$35.6 million reduction in the IBNR amount in 2005 compared to 2004 was mainly due to the increase in claims liability reserves by \$21.9 million and the lower estimates of liabilities by \$12.5 million. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining \$1.2 million change in IBNR.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. The General Fund pays for lawsuits, claims, and related expenses and then receives reimbursements from City Light, Water, Drainage and Wastewater, Solid Waste, Engineering Services, and the retirement funds for payments and expenses incurred by these funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation subrogation recoveries amounted to \$0.5 million in 2005 and \$0.3 million in 2004. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 2.848 percent for 2005 and 2.338 percent for 2004, the City's average annual rates of return on investments. The total discounted liability at December 31, 2005, was \$90.7 million consisting of \$58.4 million for general liability, \$9.3 million for health care, and \$23.0 million for workers' compensation.

## RISK MANAGEMENT

Table 14-1

### RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS (In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2005	Restated 2004	2005	2004	2005	Restated 2004	2005	Restated 2004
<b>UNDISCOUNTED</b>								
Balance - Beginning of Fiscal Year	\$ 76,309	\$ 92,479	\$ 8,621	\$ 8,210	\$ 25,624	\$ 24,804	\$ 110,554	\$ 125,493
Less Payments and Expenses								
During the Year	(10,778)	(9,135)	(89,393)	(80,979)	(11,238)	(10,987)	(111,409)	(101,101)
Plus Claims and Changes in Estimates	(7,148)	(7,035)	90,306	81,390	11,013	11,804	94,171	86,159
Balance - End of Fiscal Year	<u>\$ 58,383</u>	<u>\$ 76,309</u>	<u>\$ 9,534</u>	<u>\$ 8,621</u>	<u>\$ 25,399</u>	<u>\$ 25,621</u>	<u>\$ 93,316</u>	<u>\$ 110,551</u>
<b>UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 46,563	\$ 57,472	\$ 9,534	\$ 8,621	\$ 18,706	\$ 17,517	\$ 74,803	\$ 83,610
Business-Type Activities	17,289	18,834	-	-	6,689	8,103	23,978	26,937
Fiduciary Activities	1	2	-	-	1	1	2	3
Balance - End of Fiscal Year	<u>\$ 63,853</u>	<u>\$ 76,308</u>	<u>\$ 9,534</u>	<u>\$ 8,621</u>	<u>\$ 25,396</u>	<u>\$ 25,621</u>	<u>\$ 98,783</u>	<u>\$ 110,550</u>
<b>DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 42,573	\$ 52,629	\$ 9,270	\$ 8,424	\$ 16,964	\$ 16,158	\$ 68,807	\$ 77,211
Business-Type Activities	15,808	17,283	-	-	6,069	7,474	21,877	24,757
Fiduciary Activities	1	1	-	-	-	1	1	2
Balance - End of Fiscal Year	<u>\$ 58,382</u>	<u>\$ 69,913</u>	<u>\$ 9,270</u>	<u>\$ 8,424</u>	<u>\$ 23,033</u>	<u>\$ 23,633</u>	<u>\$ 90,685</u>	<u>\$ 101,970</u>

## ENVIRONMENTAL

The following sites are in various stages of the federal government's Environmental Protection Agency (EPA) Superfund cleanup process or the parallel process under the state's Model Toxics Control Act (MTCA), RCW 70.105. In general, the total costs of cleanup and of claims for payment of government response costs are difficult to estimate accurately, as is the City's ultimate share of responsibility.

- Harbor Island East Waterway (upland site). Seattle City Light (City Light) is alleged to have transformers at the Seattle Iron & Metal facility on the island for scrapping. PCB contamination was found in storm drains and street rights-of-way on Harbor Island and in underwater sediment adjacent to the island. The Port of Seattle initiated investigation of contamination in the East Waterway adjoining Harbor Island and removed some of the contaminated sediment by dredging. The sediment that remained after dredging, however, was still highly contaminated. EPA then decided that investigation of the East Waterway should be expanded. In 2005, EPA notified the City and King County that they would likely be named as Potentially Responsible Parties (PRPs) who would be required to participate in the expanded investigation. The City and King County decided to participate via a Memorandum of Agreement with the Port of Seattle under which each party will pay one-third of the investigation costs on an interim basis, subject to an eventual allocation process among all PRPs. In early 2006, EPA formally notified Seattle Iron and Metal that it is a PRP which also must participate in the investigation. Based on current information, the cost of the expanded investigation is estimated to be \$4.0 million to \$5.0 million. Ultimate City liability is indeterminate.
- Harbor Island East Waterway (aquatic sediments). Seattle Public Utilities (SPU) is allegedly liable due to discharges from storm drains and combined sewers. Although not considered likely, a complaint may be filed. Ultimate City liability is indeterminate.
- Harbor Island West Waterway (aquatic sediments). EPA has informally notified the City that it considers the City responsible for discharges into the West Waterway from a City (SPU) storm drain. Ultimate City liability is indeterminate.



- Lower Duwamish Waterway Superfund Site. The Lower Duwamish Waterway was listed as a federal Superfund site in 2001 for contaminated sediments. In 2000 the City and three other parties entered into an administrative order on consent with the EPA and the Department of Ecology (Ecology) to conduct a remedial investigation/feasibility study regarding sediments in the Waterway. The four parties share costs equally on an interim basis, subject to an eventual allocation proceeding that is likely to include additional PRPs. City Light's property ownership or use or releases from electrical equipment allegedly make City Light responsible for some of the sediment contamination. In particular, primarily due to City Light activities, the City is involved in cleanup of two areas within the Lower Duwamish Waterway Superfund site: Malarkey/T117 and Slip 4.
  - a. Slip 4 Early Action Area. The City entered into an agreement with King County, which is also a PRP for Slip 4, to perform and share equally the costs of investigating contamination in the slip and preparing an Engineering Evaluation and Cost Analysis (EE/CA) for cleanup options. The EE/CA was submitted to the EPA in February 2006. EPA is expected to issue its decision selecting the cleanup approach in May 2006. The City and King County will be signing an EPA Settlement and Administrative Order on Consent to perform the cleanup. Based on current information the total cost for cleanup of Slip 4 is estimated to be no more than \$8.0 million. The City expects eventually to seek reimbursement of some of the costs from other PRPs.
  - b. Malarkey/T117 Early Action Area. The City and the Port of Seattle executed a Memorandum of Understanding to share equally the costs of investigating and cleaning up contaminated sediment adjacent to a former asphalt shingle manufacturing plant. The Port and the City expect to seek reimbursement of some costs from other PRPs. The investigation was completed and the EPA issued its decision selecting a cleanup method and approach in July 2005. Based on current information, the total cost for cleanup of the Malarkey/T117 sediment site is estimated to be \$3.5 million.
  - c. Malarkey T117 Upland Site. The upland location of the former asphalt shingle manufacturing plant was initially remediated by the Port of Seattle under an EPA order. City Light settled its liability for the upland contamination in 2001 and received a release and indemnity from the former plant owner/operator. In 2005 the EPA directed the Port to collect additional soil samples from the upland area. High levels of PCB contamination were discovered that had been missed by the earlier cleanup. The port is now developing a further remediation plan which is estimated to cost \$6.0 million. City Light believes it has resolved its liability for the upland area but other PRPs may seek to compel City Light to contribute toward the remediation costs.
  - d. Dallas Street. During source control investigations conducted by SPU's Drainage and Wastewater Utility in 2004 as part of its responsibilities under its National Pollutant Discharge Elimination System (NPDES) permit for stormwater, PCB contamination was found in street right-of-ways and some adjacent private properties. The contamination is near the Malarkey/T117 upland site and may have originated from historic operations at the former asphalt shingle manufacturing plant. With Ecology's concurrence, SPU performed an emergency removal action to reduce public exposure to the contamination. SPU has developed a plan for further removal of contamination and installation of a drainage system that will eliminate the possibility of contaminated stormwater reaching the Duwamish. SPU anticipates seeking grants to cover some of the costs and also seeking contributions from other PRPs associated with the Malarkey/T117 early action area. The total of addressing the contamination and installing necessary drainage infrastructure is currently estimated to be no more than \$3.5 million. Although the work at this site has been conducted by Seattle Public Utilities, City Light is likely to share the costs due to its association with the PCB contamination on the adjacent Malarkey/T117 site. The allocation of costs to City Light has not yet been determined.
  - e. Boeing West Substation. The Boeing Company alleges that City Light is responsible for PCB contamination found in soil adjacent to a City Light substation at Boeing Plant 2 and also for PCB contamination in Duwamish waterway sediments adjacent to Boeing Plant 2. Boeing has asked City Light to pay \$1.9 million for investigation and cleanup of the soil contamination. Costs related to the sediments would be additional. After extensive investigation, City Light informed Boeing in April 2006 that it does not believe its equipment was the source of the contamination and is not, therefore, planning to contribute toward the costs of the soil or the sediment investigation and cleanup. City Light's ultimate liability at these locations, if any, is indeterminate.
- Lower Duwamish Waterway Sediments. As a result of discharges from City storm drains and combined sewers, SPU is alleged to be a PRP for the Lower Duwamish Waterway Superfund site and to have particular liability at several of the Early Action Areas. Cleanup of part of the Diagonal/Duwamish location was completed under a 1991 consent decree, using funds appropriated in prior years. There is a possibility that SPU will incur further financial liability for that location due to remaining contamination.
- Burke Gilman Trail Right of Way. A property owner adjoining this City parcel has been doing an independent remedial action (voluntary cleanup) but has informally claimed that the City, because of actions of its predecessor in title, is responsible for the groundwater contamination on his property. Settlement discussions have been underway; no formal claim has been filed (the City and the property owner have signed a tolling agreement). It is impossible to predict whether the City will have a material liability in connection with this parcel.

- Fire Station No. 2. The Fleets and Facilities Department is planning to remediate gasoline contamination underneath the alley adjacent to Fire Station No. 2. The remedial work will be done as an independent cleanup. The property owner across the alley filed a claim against the City in August 2005 alleging contamination was entering his building through the underground garage wall. The cost to remediate the contamination is not yet determined but could be material.
- Gas Works Park Sediments. In 2002 Ecology issued a Potentially Liable Party (PLP) notice to the City with regard to contaminated underwater sediment adjacent to Gas Works Park and the City's Harbor Patrol facility in North Lake Union. City potential liability is premised upon its ownership of upland properties where historic activities allegedly generated contaminants now found in the lacustrine sediments and as a result of discharges from storm drains and combined sewers. The City, with SPU as the lead, along with Puget Sound Energy (PSE), which is also a PLP for this site, executed an Agreed Order (AOC) with Ecology in March 2005 to investigate the sediment contamination. Under this AOC the City will take the lead on investigating part of the contaminated area and PSE will take the lead on investigating another part. The City's liability for undertaking the remedial investigation and feasibility study is significant. The City's liability, if any, for any further design and construction of remedial actions to clean up contaminated sediments is indeterminate.
- Gas Works Park. In 1999 the City and PSE entered into a consent decree with Ecology to perform a cleanup of the Park under MTCA. In 2000 the City and PSE reached a final settlement to allocate cleanup costs at the Park. City liability, if any, for contamination of the sediments adjacent to the Park was not resolved in this settlement. As noted above, Ecology issued the City a PLP notice for sediment contamination in the waters adjacent to Gas Works Park in 2002 and the City has agreed to sign an Administrative Order on Consent (AOC) to perform further investigation. The City's liability, if any, is indeterminate.
- Puget Park. The Parks Department owns this site, which was contaminated with cement kiln dust. The City has already spent \$0.4 million on voluntary remedial measures in cooperation with other parties. Additional voluntary remedial measures are underway. The EPA and Ecology are concerned that contaminants still could be released from the site into the Lower Duwamish Waterway. Ultimate liability is undetermined.
- Water Tank Sites and Surrounding Properties. Several years ago SPU voluntarily investigated and/or performed environmental remediation, including soil remediation, at some of the approximately 16 locations of aboveground water storage tanks and adjacent private properties. SPU's past practices of removing lead-based paint materials and other building materials and using blasting materials contaminated with lead and arsenic are the alleged source of contaminants on such sites. Ecology received reports of contamination at some sites but has taken no enforcement action. SPU settled claims from some neighboring private property owners for property damage. SPU is about to resume the investigation/remediation program and will be doing outreach to property owners in areas where contamination is likely to be found. SPU will be working with the property owners to voluntarily address contamination on their sites; however, SPU anticipates that some owners may decide to file claims instead. Ultimate City liability relating to City property remediation and to possible private claimants is indeterminate.
- Kent Highlands Landfill. The Kent Highlands landfill is a closed Seattle municipal landfill that was designated as a federal Superfund site in 1990. The State Department of Ecology administers the site under MTCA pursuant to an agreement with the EPA. Extensive remedial actions were undertaken during the 1990s pursuant to a Consent Order with Ecology originally signed in 1987 and last amended in 1996. The site is still on the Superfund list but was designated "construction complete" in 1995. In September of 2003 Ecology issued a final periodic review for the landfill, which concluded that additional remedial investigation and possibly remedial actions are necessary at the landfill. The City disputed many of the conclusions in the review. Liability at this time is indeterminate.
- South Park Landfill. This site, which is owned by King County, was used in the 1930s and 1940s as a public burn dump and later as a City landfill. SPU is seeking to obtain the site from King County for construction of a new South Transfer Station. If SPU becomes the property owner, SPU likely will perform and pay for any necessary remediation. In the past King County performed an initial environmental investigation, focusing on soil, ground water, and subsurface gas, at a cost of approximately \$1.9 million. King County has expressed informally that it considers the City to be liable for most of the costs the County has incurred to date and any future costs of investigation and remediation. No litigation has commenced and the City's liability, if any, is unknown.
- Other Potentially Contaminated Sites. There may be other parcels of land that may be designated Superfund sites or be designated under MTCA. Demands with respect to such sites may be made on the City by regulatory entities, or the City may choose to clean up these or other sites voluntarily, once they are identified. The City may also be interested in pursuing third parties for contribution.

## OTHER MATTERS

- City Light Franchise Litigation. In July 2005 a class action lawsuit was filed against the City and five suburban cities that have franchise agreements under which City Light may use streets in these cities for City Light facilities. In each

franchise City Light agreed to make a payment to the suburban city in exchange for the suburban city's agreement not to establish its own municipal electric utility. The plaintiffs claimed that these payments were "franchise fees" that were illegal under RCW 35.21.860(1). In February 2006 the judge granted summary judgment in favor of the City and the suburban cities, dismissing the plaintiffs' claims. The plaintiffs have appealed this ruling to the State Supreme Court. If the trial court's ruling is reversed and the payments are found to be illegal, it is possible that the suburban cities may be required to refund these payments to City Light. In such event the suburban cities would have the right to terminate the franchise upon 180 days' written notice. Due to the uncertainty of the litigation, the impact on City Light is uncertain.

- **Refund Cases at the Federal Energy Regulatory Commission (FERC).** Seattle City Light is involved in the California refund case and the Pacific Northwest refund case, both pending at FERC and relating to the enormous energy price spikes in California and the rest of the West Coast in 2000-2001. FERC has issued orders on rehearing in both cases and the City has appealed both rulings to the Ninth Circuit. Briefing was completed on the Pacific Northwest refund case in 2005. We cannot predict when the Ninth Circuit will schedule oral arguments or issue a decision. The briefing schedule for the California refund case has been stayed pending the outcome of two test cases. In September 2005 the Ninth Circuit issued its opinion in *Bonneville Power Administration v. FERC*, one of the test cases. In that case the Ninth Circuit concluded that FERC does not have refund authority over wholesale electric energy sales made by governmental entities and nonpublic utilities. Consequently, FERC cannot order Seattle to make price refunds with respect to such transactions.
- **Oregon Tax Claim.** In 2001 the Oregon Department of Revenue assessed City Light, along with another northwest municipal utility, an ad valorem property tax for each utility's respective interest in the capacity ownership agreements with the Bonneville Power Administration for the Pacific Northwest Third AC Intertie transmission line. The assessment was for tax year 2001 with a retroactive "omitted property" assessment for years 1997 through 2000. In January 2004 the Court issued a ruling in favor of the cities for the "omitted property" claims, eliminating the assessment prior to 2001. In June 2004, as a result of changes to the Oregon Tax Code, a new "omitted assessment" was made for years 1999 and 2000. Prior to trial that was scheduled for 2005 the Oregon Legislature resolved the matter by enacting legislation that retroactively exempts tangible property and intangible rights in or related to the Pacific Northwest AC Intertie from Oregon ad valorem property taxation.
- **Joint Training Facility.** In May 2005 the Army Corps of Engineers issued a stop work order to the Fleets and Facilities Department regarding construction of the City's Joint Training Facility. The Corps contended that the City had violated the Federal Clean Water Act by filling a wetland without a permit. Since then the City has been developing a proposal to mitigate the impacts of its alleged violation. The City Council appropriated \$1.0 million for the mitigation work; however, the ultimate cost is expected to exceed that by an unknown amount.
- **Overtime Pay.** An action cast as a class action was filed on behalf of City employees to whom the City purportedly failed to pay regular and overtime wages according to the time prescribed by law. In August 2005 the Superior Court granted the City's motion to dismiss the plaintiffs' claim that regular wages paid more than seven days after the end of the pay period were untimely. That order was reaffirmed after consideration in November 2005. As of the end of 2005 the only claim remaining before the trial court was that overtime payments made more than ten days after the pay period in which they are worked are untimely. The plaintiffs have made a motion for certification of a class of all City employees who receive overtime compensation. It is impossible to predict whether a material adverse outcome will occur.
- **Temporary Employees.** The plaintiff class, comprised of over 3,000 current and former City temporary employees who worked over 916 hours in one year, or over six months in a vacant regular position, alleged that the City failed to comply with the Scannell settlement agreement in regularly reevaluating whether those temporary positions were doing work that should be done by regular employees. They also alleged the City has mislabeled temporary employees and consequently denied them benefits and pay they would be entitled to as regular employees under City ordinance and state law. After the parties engaged in mediated settlement discussions, the Superior Court in March 2006 approved a settlement of this matter for \$11.5 million, inclusive of costs and fees. The City will distribute the settlement to individual class members and their attorneys in 2006. In 2005 the City made claims on its excess liability insurance carriers for the losses it has incurred. The likelihood of a material recovery on the insurance claims cannot be predicted.
- **World Trade Organization (WTO) Conference.** The WTO Conference was held in Seattle in 1999. This event spawned 407 claims and 26 lawsuits against the City. All but two lawsuits have been resolved for an aggregate nonmaterial amount. The two remaining lawsuits were consolidated on an issue common to both cases: plaintiff's challenge to the declaration of an emergency and the emergency order creating a limited access area. The Ninth Circuit affirmed the District Court's dismissal of the plaintiffs' facial challenges to the relevant orders but reversed and remanded for trial the "as applied" claims regarding some police enforcement activity. In a separate ruling, the Ninth Circuit Court also reversed the trial court's denial of class certification in one of the cases and remanded for further proceedings on that issue. The plaintiffs are attempting to certify a class of 200 individuals who were arrested. The likelihood of material adverse outcome in this matter cannot be predicted.

- North Cascade Environmental Learning Center Project. This project is currently under construction. The contractor, RAS Construction, has filed a claim in excess of \$3.0 million. Based on an analysis of the claim, the City has several defenses to the claim and a right to a substantial amount of liquidated damages due to the failure of the contractor to complete the project in a timely fashion. However, this matter has been substantially complicated by the fact that the project had to be suspended in the fall of 2003 due to a landslide that blocked access to the site. The likelihood of material adverse outcome in this matter cannot be predicted.
- Olympic Sculpture Garden. The Seattle Art Museum is developing a site (called the Olympic Sculpture Garden) adjacent to Elliott Bay. The site was the historic location of a bulk-fuel transfer facility operated by Unocal. Unocal has performed remedial activities at the site. The City assumed specific liabilities when the site was sold to the Museum Development Authority, including liability for remaining contamination in the rights-of-way and tidelands. In 1999 the City's probable cost to address remaining contamination was estimated to be \$0.4 million. Current information indicates that the City's costs may exceed that estimate by an unknown amount.
- State Route 519 Improvements. Part of these improvements included the movement of a Burlington Northern Santa Fe railroad (BNSF) spur track. The City and BNSF entered into a contract regarding the movement of the spur track. In part, the contract provided that BNSF would move its spur track upon the City's construction contractor providing BNSF with the contractually specified notice. Even though BNSF has been given the required notice, BNSF has failed to move the spur track. As a result, the City's construction contractor has suffered significant delay damages. BNSF has raised several defenses to its failure to move the spur track. The City has not made a formal demand upon BNSF for its construction contractor's delay damages. It is not possible to predict the likelihood of a material adverse outcome for the City particularly in light of the potential for the City to recover from BNSF should the contractor establish its claim.
- Parking Meters. Plaintiffs allege that the City unlawfully requires payment at parking meters on "legal holidays" and has unlawfully ticketed violators. The complaint, which was not served until early 2006, contains class action allegations. The plaintiffs' attorney recently advised that they intend to voluntarily dismiss the complaint without prejudice. The stipulation for dismissal has been signed by both parties and we expect an order of dismissal to be entered soon. It is impossible to predict whether plaintiffs will file a new lawsuit.
- Parking Citations. In two separate cases plaintiffs made individual and class allegations that the Seattle Police Department has improperly issued parking citations and that Seattle Municipal Court has improperly processed parking citations. One case was dismissed on summary judgment in May 2005. Appellate review is pending in the Washington Supreme Court. The other case is stayed pending appellate review in the first case. The likelihood of material adverse outcome in either matter cannot be predicted.
- Impounding of Vehicles. A class action was filed in June 2003 regarding legality of the City policy and practice of nondiscretionary impounding of vehicles of persons driving with suspended licenses. The matter is in discovery. The case has been certified as a class action. The original March 2006 trial date has been stricken and no new trial date has been scheduled. The City has filed a motion to de-certify the class. It is impossible to predict whether a material adverse outcome will occur.
- Business Tax Refunds. Three cases involving potential tax refunds were filed as follows: 1) A telecommunications company filed a case with the City of Seattle Hearing Examiner in December 2005 challenging approximately \$4.0 million to \$5.0 million in utility taxes and interest it paid covering the period from January 1997 through March 2005. 2) Another company alleges that the City's telecommunications utility tax should not apply to that portion of its gross receipts that it devotes to paying that utility tax. The City prevailed at the trial court and at the Court of Appeals. The company's request that the State Supreme Court accept discretionary review is pending. The company paid the City approximately \$0.4 million in August 2003, representing the contested tax and interest to that date. If the Supreme Court were to accept review and if the company were to prevail, the City may have to refund that amount plus interest. 3) A company is appealing an assessment of the City's business and occupation tax for its wholesale sales to dealers located in Seattle. The assessment totals \$1.4 million, \$0.4 million of which has been recorded as deferred revenue. If the company were to prevail, the assessments plus interest may have to be refunded. It is not possible to predict the likelihood of a material adverse outcome.
- Fire Hydrants. A class action suit was filed seeking to require payment from the General Fund to SPU's Water Fund of the costs the Water Fund bore (until January 1, 2005) for fire hydrant service, including installation and maintenance of the hydrants and the piping serving them, as well as water provided for the hydrants. Plaintiffs also seek refunds from the Water Fund to water utility customers. It is not possible to predict the likelihood of a material adverse outcome.
- False Alarm Fees. An alarm monitoring company claims that the City's fee for each false alarm that is sent from a monitored burglar alarm is an impermissible "tax." The City has counterclaimed seeking more than \$0.6 million in false alarm fees that the company has refused to pay. In aggregate, the City collected from all alarm monitoring companies over \$1.0 million in such fees in 2004 and 2005 combined. If the company were to prevail in the instant lawsuit, the City might be subjected to claims for refunds of those amounts. The case was filed in late December 2005 and is set for

trial in June 2007. The company's motion for partial summary judgment is pending. It is not possible to determine at this time whether a material adverse outcome or recovery will result.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospect of material, adverse outcome therein is remote. Other than the aforementioned cases and the claim liabilities recorded in the financial statements, there were and are no outstanding material judgments against the City.

### **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) SECTION 108 LOAN PROGRAM**

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low-cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn, provides the low-cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly with the City's loan servicing agent, JP Morgan Chase. JP Morgan Chase disburses funds on behalf of the City to the private borrowers.

The Brownfields Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loan program. The City uses BEDI grant funds as a loan loss reserve and interest subsidy on Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to its loan servicing agent, JP Morgan Chase.

Pursuant to RCW 35.21.735 the City is expressly authorized to participate in the Section 108 loan program. The state statute and the City's contracts/agreements with HUD clarify that the City never pledges its full faith and credit. Future block grant funds are pledged to HUD in the event of borrower default. Each loan is secured by a deed of trust and/or bank-issued letter of credit that provides the City with security in the event of borrower default. Additionally, the BEDI grant funds may be used by the City to protect against loan default.

On December 31, 2005, seven accounts remained outstanding with a combined total amount of \$12.9 million. BEDI grant funds amounting to \$1.3 million are being held as loan loss reserves for five of the seven accounts.

### **GUARANTEES OF THE INDEBTEDNESS OF OTHERS**

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

#### ***Museum Development Authority***

Special obligation bonds issued on November 16, 2005, in the amount of \$60,720,000, all of which was outstanding at December 31, 2005. The bonds will be fully retired by April 1, 2031.

#### ***Pike Place Market Preservation and Development Authority***

Special obligation deferred-interest refunding bonds issued on March 7, 1991, in the amount of \$1,376,671, of which \$1,078,574 was outstanding at December 31, 2005. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued November 1, 1996, in the amount of \$6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2005, was \$5,305,000. The bonds will be fully retired by December 1, 2021.

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$5,925,000, \$4,890,000 of which was outstanding on December 31, 2005. The bonds will be fully retired on November 1, 2017.

#### ***Seattle Chinatown-International District Preservation and Development Authority***

Special obligation refunding bonds issued on September 15, 1996, in the amount of \$9,000,000. The outstanding amount at December 31, 2005, was \$7,755,000. The bonds will be fully retired by August 1, 2026.

Special obligation bonds, Series A, issued on December 12, 2002, in the amount of \$7,700,000. The outstanding amount at December 31, 2005, was \$3,020,000. The bonds will be fully retired by October 1, 2032.

Special obligation bonds, Series B, issued on December 12, 2002, in the amount of \$2,790,000. The outstanding amount at December 31, 2005, was \$2,735,000. The bonds will be fully retired by October 1, 2032.

## *Seattle Indian Services Commission*

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$3,710,000, of which \$3,405,000 was outstanding on December 31, 2005. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of \$5,210,000, all of which was outstanding as of December 31, 2005. The bonds will be fully retired on November 1, 2024.

## **(15) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES**

**Governmental Activities:** In the government-wide financial statements under governmental activities, prior-period adjustments were made to increase assets by \$3.6 million for the actuarially determined negative net pension obligation, with a corresponding increase to unrestricted net assets, and to decrease capital assets by \$18.1 million. The change to capital assets for 2004 and prior years included: a decrease in land assets of \$0.1 million; a decrease in construction in process of \$47.4 million; a decrease in buildings of \$10.4 million; a decrease in other assets of \$0.1 million; an increase in improvements of \$10.0 million; an increase in infrastructure assets of \$32.7 million; and an increase in accumulated depreciation of \$2.8 million.

In the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, the expenses related to the adjustments to capital assets mentioned above decreased the 2004 change in net assets of governmental activities by \$1.6 million.

Reclassifications were made as follows: \$16.3 million reported as tax revenue in the Fire Pension Fund in 2004 was reclassified to employer contributions and the tax revenue of \$16.3 million was then reported in the General Fund with an offsetting expenditure for the employer contribution to the Fire Pension Fund; and \$7.5 million in expenses related to claims liability on the Temporary Employment Service judgment recorded in 2004 in general government were reallocated to the appropriate functions that should have been charged in that year.

**Business-Type Activities:** Restatements were made for the Water Fund to decrease environmental liabilities and related deferred charges by \$1.3 million. Related to taxes, the Solid Waste Fund reduced prior-year revenues and expenses by \$3.0 million and moved \$0.2 million in remittances outstanding at year-end from taxes payable to due to other governments. Water, Solid Waste and Drainage and Wastewater Funds reclassified prior-year work in process and capital assets to deferred charges. In total, the adjustments decreased work in process by \$29.9 million, decreased capital assets by \$8.5 million, and increased deferred charges by \$38.4 million.

Other minor reclassifications were made to 2004 amounts for comparability and consistency.

## **(16) SUBSEQUENT EVENTS**

**Bond Issue.** On April 26, 2006, pursuant to City Ordinances 121651 and 121982, the City issued \$24.9 million in Limited Tax General Obligation (LTGO) and Refunding Bonds, 2006 Series. Of the bond issue, \$11.0 million provides additional funding for major improvements on City capital projects, such as the Seattle Aquarium at Pier 59, the Mercer Corridor, Alaskan Way Viaduct, and the South Lake Union Streetcar; \$11.7 million refinances \$11.9 million of the 2003 LTGO bonds used for the earthquake repair of the Park 90/5 facilities, which are due on August 1, 2006; and \$2.2 million refunded approximately the same amount of the remaining original issue of the 1995 LTGO bonds. The proceeds on the refunding portion of the bond issue were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide a sufficient amount to pay for the bonds and applicable interest when the refunded bonds are called on July 1, 2006.

**Sockeye Hatchery.** In April 2006 a new lawsuit was filed in federal court alleging that the National Marine Fisheries Service erred in issuing an Incidental Take Permit to the City based on the Cedar River Habitat Conservation Plan mentioned in Note 14, Contingencies. The lawsuit focuses on SPU's planned construction and operation of a sockeye hatchery on the Cedar River. The City was not named in the lawsuit but may decide to intervene as a defendant. If the lawsuit results in SPU being unable to construct the hatchery, then under the pending settlement with the Muckleshoot Tribe, SPU would owe the Tribe up to \$14.0 million.

North Cascade Environmental Learning Center Project. In April 2006 this case, which is described in Note 14, Contingencies, was settled with the City making a payment of \$0.8 million.

Claims Related to a Federal Energy Regulatory Commission (FERC) Litigation. In March 2006 Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas and Electric Company, and the California Electricity Oversight Board commenced litigation against the City (and other governmental entities), asserting that the City is contractually obligated to make refunds for claimed overcharges, even if FERC lacks the power to require government entities to do so. In January 2006 the People of the State of California and the Department of Water Resources filed another claim for reimbursement parallel to the contract action described above. The City has denied the claim; litigation has not yet been filed.

Personal Injury Claims. In early 2006 \$1.25 million was paid to settle a claim that alleged a fall sustained by a minor in December 2003 was caused by City negligence. In February 2006 a case involving a pedestrian death in October 2003 alleging City negligence in street design was settled for \$4.0 million.

Muckleshoot Indian Tribe. In June 2006 a City ordinance was passed to authorize the monetary and property transfer components of a settlement agreement between the City and the Muckleshoot Indian Tribe. The agreement settles the suit filed in 2003 by the Tribe against the United States National Marine Fisheries Service alleging that the Incidental Intake Permit issued to the City for City activities in the Cedar River Watershed should not have been issued. The City intervened in the lawsuit. The settlement includes payment to the Tribe of \$14.0 million for fishery enhancements, \$0.3 million each year for ten years for wildlife research and habitat improvements in the watershed, and possible transfer of two parcels of land that total 200 acres or, if one of the parcels cannot be transferred, payment to the Tribe of another \$1.0 million. The City's Water Fund booked the \$18.0 million monetary consideration as a liability in its financial statements as of December 31, 2005. The settlement also includes permanent caps on the City's diversions of water from the Cedar River, transfer of part of the City's water right to the State Trust Water program, transfer to the tribe of 1,300 acres in the Green River Watershed, and protocols for the Tribe to exercise its treaty rights to hunt and gather in the watershed. The settlement of the suit also resolved the Tribe's periodic informal claims against the City's Seattle Public Utilities for damage to fish populations allegedly caused by installation in 1900 of a water diversion dam on the Cedar River.

Claims against Police Department. On July 7, 2006, claims were filed against the police departments of Seattle and another city in Washington State alleging that the departments did not provide timely notification to the State Department of Social and Health Services about a foster dad posting pornographic pictures of children on the internet. The claims against both departments are for eight children and range between \$2.5 million and \$4.0 million per child.